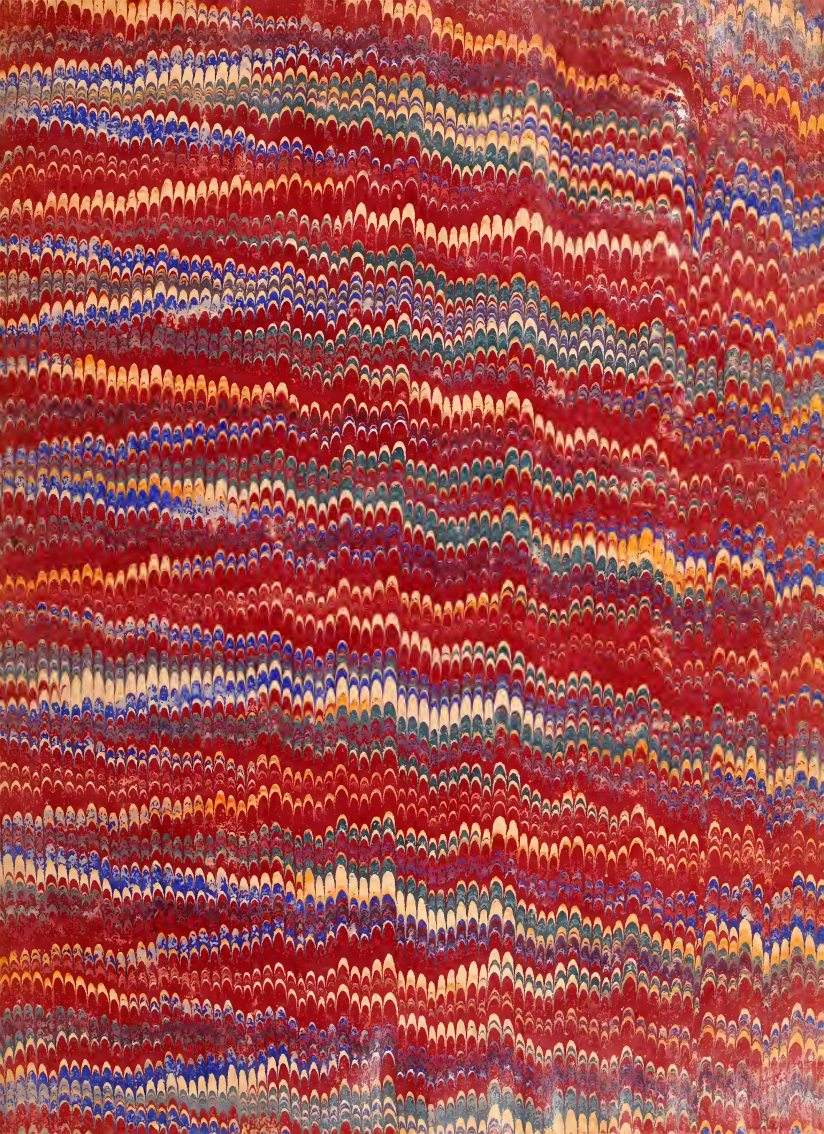


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A FINANCIAL HISTORY OF MARYLAND.

(1789-1848).

Dissertation

Submitted to the Board of University Studies of the Johns Hopkins University in conformity with the requirements for the Degree of Doctor of Philosophy.

by

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Preface.

The endeavor of the following pages is to present the financial history of the State of Maryland from 1789 to 1848, with an introductory outline of the finances during the few years of independent statehood, 1775-1789. This carries the subject from the financial reconstruction brought about by the Revolution through the rather uneventful years of the first half century, through the exciting era of the great internal improvement enterprises, upon which the state staked its credit and almost lost, and, finally, through the second financial reorganization of the years 1841 to 1848, when, in order that the state might not become a defaulter, it became necessary to enact a code of taxation that was practically new. This ends one and ushers in another financial period; and these, without much violation to the logic of continuity, may be separated for purposes of treatment. The study of the earlier period, as here attempted, is largely one of origins and of historical concern; but it is believed to be not altogether devoid of interest to the student of finance.

The sources of information have been mainly documentary: The Laws of Maryland, the Proceedings of the Senate and of the House of Delegates; the various reports,

etc., annually collected after 1825, under the title of "The Public Documents", and the contemporary newspaper files. Other sources availed of have been duly mentioned in the foot-notes. For personal assistance acknowledgment must be made to Professor J. H. Hollander and Dr. G. E. Barnett.

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CHAPTER I. OUTLINE OF THE FINANCES DURING THE REVOLUTION.

The War of the Revolution marks a complete break in the financial as well as in the political history of Maryland. The fiscal methods of the colony were not suited to the democratic state. The new government continued unchanged many features of the former proprietary government, but of the old financial machinery there were few features that could be thus accepted. Therefore in framing financial measures the government of Maryland had to conceive an almost new structure. The measures adopted reflect the haste and uncertainty of the period, and for the most part passed away with that period. But not entirely so. There is a definite line of continuity in the financial history of the state after 1775, and this is, therefore, the proper point of beginning.

I.

The first Provincial Convention, meeting in June, 1774, although of regularly elected delegates of the people was intended simply as a means of protest against the alleged wrongs of the mother country. This extra-legal body, however, was continued in existence, and gradually assumed, and by its nature was forced to assume, broad powers of ad-

ministration and legislation. But it was not until the middle of 1776 that the old proprietary government was formally abolished by the departure of Governor Eden, and the idea of independence definitely accepted. In these intervening two years there really existed two governments within the state. But the authority of the proprietary government in all matters of administrative routine was fully acknowledged, even by the Convention itself, which not only recognized the officers of that government, but even went so far as to offer to assist them in the collection of the regular taxes.

(1)

The Convention, however, although thus modest in its claims to power, began at an early date to make preparation for the forcible defense of its demands. Thereupon the Convention was immediately confronted with the financial problem. The attempt to raise money by voluntary contributions met with little success, although non-contributors were penalised by ostracism and in some cases by maltreatment. In this extremity it was but natural that the issue of paper money should be resorted to as a tentative measure. To levy taxes would be an undue stretching of the Convention's authority, and, moreover, would bring it into

(1) Silver. The Provisional Government of Md., p.32. Proc. of the Convention of the Province of Md., p.115.

(2) Maryland Archives; Journal Council of Safety, p.15, and Proceedings Convention of the Province of Md., p.13.



direct conflict with the proprietary government. The same objections would apply to the floating of a loan, if, indeed, such a possibility suggested itself. Bills of credit, however, had then as now a peculiarly insidious power of worming themselves into circulation, and their issue was supported by the precedents set by the Proprietary Government and by the Continental Congress in the spring of 1775. This paper money policy was formally begun in August of that year, when the Convention authorized an issue of bills of credit to the amount of \$266,666.66 ⁽¹⁾ 2/3. Redemption was solemnly promised in the name of the people of the state. But this was a mere beginning. To equip and support an army and navy was costly, and hardly had the presses struck off this issue when another batch of \$535.111 1/9 was ordered, out of which, however, the former issue was to be redeemed. ⁽²⁾ The war was now well on, its seriousness and likely permanence understood. Within a twelvemonth the ⁽³⁾ Convention duplicated its last issue of paper notes, declared Maryland a free and independent state, and made provision for a formal constitution and a regular machinery of government.

(1) Maryland Archives, Journal of Convention, pp. 24, 25

(2) Jan. 1776. Proceedings of the Convention, p. 87.

(3) Idem. p. 366.

The first general assembly, meeting in February, 1777, found large and growing military expenditures, an appreciable floating debt incurred by the later Conventions, no regular sources of revenue, and a circulating medium saturated with a million odd dollars worth of state bills of credit and with a far greater amount of continental paper. In the forming of a financial policy the Assembly, as has been noticed, had to begin practically afresh. The revenue of the Proprietary Government had been derived mainly from port duties, poll-taxes and the system of quit-rents. Poll-taxes and quit-rents were out of harmony with the new democratic principles, and port duties could be of little importance so long as the enemy should hold the control of the seas. Thus, a few license charges - those upon marriages, keepers of ordinances and peddlers - together with a few fees and such fines and forfeitures as accrued as an incident to a judicial system, were the only revenue sources which could be accepted by the new government as
(1)
legacies from the old. These sources were continued, in some cases without formal re-enactment, but otherwise there was during the whole period of the war little inclination

(1) Maryland Laws, (June) 1780, ch. VIII.



shown to derive revenue from indirect methods of taxation.

(1)

A shortlived tax upon billiard-tables was the only new license charge imposed. A tax of 1 % upon sales at auction

(2)

(3)

was levied in 1780, but was repealed within a year; and duties upon imports and exports, although numerous and heavy, were of little effect owing to the stagnation of foreign trade.

The financial expedients upon which the Government of Maryland placed its chief reliance during the years of the war were: 1. The general property tax; 2. The issue of certificates of debt; 3. The Confiscation of British property. These will be briefly considered.

1. General Property Tax The financial measure most favored and first adopted by the Assembly was the levy of a tax upon real and personal property. Such a tax was unfamiliar to the people; it had been resorted to only once during the whole history of the Proprietary Government. But the apparent justice of the property tax so strongly commended it in the reaction against indirect and personal

(1) Md. Laws, 1780, ch. VIII.

(2) Idem. 1780, (October session) ch. 30.

(3) Idem. 1781 (May session) ch. 8.

(4) During French and Indian wars. The tax then was only upon land, and was really not a property tax.

taxation that the principle that each citizen should contribute to the public treasury in proportion to his property worth was made a fundamental article of Maryland's Declaration of Rights. In the excitement of war, however, it was no easy matter to put such a tax into operation. In the first place, lack of experience would render the framing of an efficient law extremely difficult; and, secondly, because the assessment and collection of such a tax required an elaborate machinery, which would have to be constructed anew. As a result the new tax laws developed many weaknesses from the first. The assessments were badly made, and with great inequity between persons and places. Nevertheless the general property tax was continued until after the close of the war, and formed, while it lasted, the most important, and only dependable, source of revenue.

So far as the state finances are concerned this early use of the property tax is complete in itself. It was discarded in 1786, and when again restored nearly fifty years later it was of a radically different character. But the methods of assessment and collection developed in the earlier acts are interesting for purposes of comparison with the later acts; and they are important, moreover, as embodying the basic features of the assessment system used by

the local governments in this intervening half-century.

From 1777 to 1786 an assessment act was an annual, sometimes a semi-annual, occurrence. Not in all cases, however, was a new general assessment provided. In some years the previous assessment was retained with only such changes as were necessitated by the addition of new property or the abatement of old. Each of these acts was, in a sense, an improvement upon the previous one, but the essential features of the several acts are very similar. This is especially true as regards the machinery of assessment. In each case a board, known as the Commissioners of the Tax, was appointed for each county, with general supervisory power over the enforcement of the tax law within its jurisdiction. This board appointed assessors of property for the county, sometimes according to hundreds, sometimes according to specially constructed assessment districts. The assessors reported to the board of commissioners, who then acted as a court of appeals, listening to complaints and increasing or decreasing the assessors' valuations at its discretion. The act of 1788 transferred the final authority of review to a special court of appeal for each county and for Baltimore town, but a few years later, these special courts were abolished and the appellate jurisdiction in

matters of the tax re-invested in the county commissioners. For the collection of the tax the board was authorized to appoint some suitable person,-the sheriff of the county being usually the first choice - who was directed⁽¹⁾ to appoint deputy collectors for each hundred or district. The distinctive feature of this whole system of administration was its centralization. The Commissioners of the Tax were appointed by and responsible to the state government, and the subordinate officers of assessment were of similar character.

The endeavor to render the tax upon real property equitable as between localities was responsible for most of the changes in the successive acts. The first act, that of 1777,⁽²⁾ allowed the assessor to accept the sworn statement of the owner as the true valuation of his property, merely providing penalties for evasion or false statement. This system led to marked irregularities. Thereupon valuation by personal oath was discontinued.³ and to guide the assessors in estimating the value of land the law provided that no land should be valued at less than seven shillings six pence,⁽⁴⁾ nor for more than four pounds. The wide dis-

(1) At times great difficulty was experienced in getting any one person to assume the labor of collecting the taxes of the whole county, and in such cases the commissioners were allowed to appoint more than one collector. Md.Laws, 1780 (June)ch.13. (2) Md. Laws, 1777. ch. 21.

(3) Idem. cf. 1781, ch.4.

cretion still given the assessor caused this crude measure to have little effect. Not until the last act of the series (1) that of 1785, was any comprehensive plan for equalization devised. By this new plan an average value for the land of each county was fixed by law; the average varying from 33 shillings 6 pence per acre for Kent county and 15 shillings 9 pence per acre for Caroline. This average value per acre was then multiplied by the number of acres in order to give the taxable basis of the county. The actual levy of the tax was made as before upon real and personal property according to the selling value thereof. Such a scheme as this was complex and difficult to apply, and the fixing of average land values was necessarily arbitrary. Nevertheless the act was calculated to accomplish its purposes, which were, first, the rough equalization of the burden of the tax among the counties, and, second, the prevention of the steady decline in the valuation of property within the state as returned by the assessors.

The assessment of personal property was for the most part left to the discretion of individual opinion. The owner returned an account thereof, under penalty, and the assessor valued it at what he thought it to be worth. In

(1) Md. Laws, 1785, ch. 53.

a few cases, however, rules were laid down for the guidance of the assessor. Thus the values at which slaves were to be everywhere assessed were detailed in a table, the amounts varying according to age, sex, etc. Similarly, silver plate was assigned a fixed taxable value of 8 shillings, 4 pence, per ounce; and, for a time, bar and pig iron were given specific values per ton. Intangible wealth was as yet of no great importance, consisting principally of various sorts of debts and of interests in land. The general rule was that debtors should be allowed to deduct from the interest due their creditors the amount of the tax on the principal of the debt. (1) Tenants paying taxes, could deduct the amount of the taxes from their rent. (2) Ground rents in towns were assessed to the lessor, the value thereof being determined by capitalizing the rent at 8 %; (3) and in the same way the value of rented houses in towns was ascertained by capitalizing the rents at 16 %. (4) In the early acts the attempt was made, but with little success apparently, to complete the property tax by an income tax upon annuitants, and persons holding public offices and profits. And (5)

(1) Md. Laws, 1777, ch. 22; 1781, ch. 4.

(2) Md. Laws, 1781, ch. 4, section 27.

(3) Md. Laws, 1785, ch. 53, Sec. 328.

(4) By 1782, this was 12%.

(5) Md. Laws, (Mch) 1778 ch. 7, sec. 4. Oct. 1778, ch. 7

in all the acts single males of a certain age were required to pay a fixed tax of 15 shillings, when they did not pay taxes upon a minimum amount of property. (1)

Exemption from taxation was extended to the property of the United States, the State of Maryland, and parish schools, all provisions (except livestock) necessary for consumption for the year, tools of mechanics and manufacturers actually employed, ready money, and wearing apparel. (2) Also any person not possessing property valued at more than 10 pounds was deemed a pauper, and therefore not a subject for taxation. (3)

The rate of the first tax levy in 1777 was 10 shillings per 100 pounds of property; by 1780 it had risen to 25 pounds, after which it declined until in 1785 it was 7 shillings 6 pence . These figures are not significant. The character apparently confiscatory of a rate of 25% is explained by the fact that the tax was payable in a greatly depreciated currency, whereas the assessment was upon a specie basis. Estimating the greatest depreciation to have been in the ratio of 40 paper to 1 specie dollar, the tax of 25 pounds would have been but slightly over 3/5 or 1 % in specie.

(1) Cf. Md. Laws, 1781, ch. 4, sec. 85-86, and 1785, ch. 83.

(2) Idem. 1781, ch. 4, sec. 2. (3) Idem. 1781, ch. 4, sec. 67, 68.

The difficulty of the treasury at the time was complicated by the fact that the annual assessments of property steadily declined. In 1780 the total property value returned for taxation was \$15,889.079; by 1782 this had been reduced to \$11,747.493; and in 1786 it was only about \$10,000 000.

(1)
(2) Bills of Credit and Certificates of Debt. The great depreciation in the bills of credit put forth by the state conventions and by the continental congress showed the weakness of such issues secured simply upon a pledge of faith. The attempt to maintain such bills at par by declaring them a legal tender proved futile from the beginning and in 1780 this provision was repealed. With this experience before their eyes, and at the solicitation of Congress, the General Assembly for some three years refused to countenance any further paper money proposals. An empty treasury, however, in time forced the abandonment of this attitude. But in again sanctioning the emission of paper bills the assembly endeavored to provide against the evils of the earlier issues; the most important departure from

(1) Proceedings of House of Delegates, 1782, (Nov.) p. 12.

(2) Idem., 1785 (Nov.) p. 85.

(3) Maryland Laws, 1777 (October) ch. 9.

(4) " " 1780 (June) ch. 28.

the earlier practice being the establishment of redemption funds of undoubted adequacy. These funds were obtained either by setting aside definite amounts of British confiscated property or by the levy of special taxes. The bills were made receivable for treasury payments, and as a rule (1) bills once received by the state were permanently retired. The total value of the new bills emitted was relatively small, and of the three issues authorized only two were at the state's own initiative. These were: by act of June, (2) 1780, \$ 30,000, known as "Black Money", and by act May, (3) 1781, \$ 200 000, known as "Red Money". The other issue was merely in fulfilment of an act of Congress, by which it was arranged to retire the greatly depreciated continental paper. (4) Under this arrangement each state was directed to provide for the retirement of its assigned quota of the old emission, and in substitution a new issue limited to one-twentieth of the face value of the old was authorized. Of the new bills the state was to receive six-tenths for its own use. The quota assigned Maryland for retirement was \$20 540 000. This would allow the issue of about \$1,000, 000 worth of new tenor bills, but up to April, 1782, only

(1) Md. Laws, 1781, ch. 36.

(2) Idem., 1780 (June), ch. 24.

(3) Idem., 1781 (May) ch. 23.

(4) Idem. 1780 (June) ch. 8.

(1)
\$ 98,070. . . of this amount had been put forth. These bills, known as "Continental state money" were secured upon by the state. They differed a redemption fund provided from the regular state issue in that they bore interest.

Not only did the new state bills depreciate but the Assembly anticipated such depreciation and provided that at intervals the commissioners of the tax should publish the rates at which the bills would be received in payment of taxes. This led to much confusion, the commissioners in one county fixing the rate as low as 2 to 1, and those of another county at 5 to 1. Finally the Assembly itself enacted the depreciation rates at which bills should be re-

(2)
ceived. By October, 1780, the old Convention money, as well as the early Continental issues, had so fallen in value that the state fixed a date after which they should not pass current. In the meantime, however, they could be exchanged for bills of the new issue at the ratio of 40
(3)
to 1.

The comparatively little use made of bills of credit by the state was due primarily to the fact that "certificates of debt" were found to be a more feasible means of

(1) Md. Laws, 1782, ch. 50.

(2) Md. Laws, 1780 (October session) ch. 48; 1781 (May session) ch. 24.

(3) Oct. 1780, ch. 5.

coining the public credit. These certificates, although issued in a variety of forms, were simply interest bearing treasury notes. ⁽¹⁾ The several emissions differed widely in details, but the essential features were: annual interest at 6%, payment at specified dates or at the close of the war, redemption secured by some particular fund, and receivability for taxes and certain other forms of public dues. Except that they bore interest they differed but little from the later issues of State bills, and were quite analagous to the "Continental State money". Originally, however, they were not intended as a currency, and the earlier issues were of no lower denomination than ⁽²⁾ 20. But later the denominations were reduced, and, as the state was lax in paying the promised interest, certificates of debt became identified apparently with bills of credit in ordinary transactions. These certificates were issued in profusion and for almost every kind of treasury payment, being indeed the usual means of meeting a treasury deficit. Each issue required legislative sanction and the purpose was specified, but so long as this purpose was respected no

(1) Cf. Md. Laws, 1778 (March session) ch. 14; 1781 (May session) ch. 7; 1782 (November session) ch. 25; 1779 (Nov. session) ch. 38; 1781 (May session) ch. 5.

(2) Md. Laws, 1778 (March session) ch. 14.

limit was placed upon the amount the treasurer might issue. Sometimes these certificates were for direct advances of specie or supplies, in which case they were simply short-time bonds. But the major portion emitted was forced upon various state creditors in lieu of actual money.

(3) Confiscated British Property. After long meditation the Assembly in the fall of 1780 determined upon the confiscation, with some exceptions, of all property within the state belonging to British subjects. The value of the property seized under this act is difficult of computation, but \$ 500 000 specie value would probably be a conservative estimate. Unfortunately for the Treasury, however, most of this property was in the form of land and in the depression of war times not readily convertible into money. All of it was offered for sale, but investment seekers with ready money were not plentiful, and only a fraction was sold outright. The far larger portion was disposed of on credit, the purchaser being required usually to give a well secured bond for the payment of annual interest on his debt and of the principal within a specified term of years. Fi-

(1) Cf. Md. Laws, 1780 (October session) ch. 51; 1780 (June session) ch. 2.

(2) Bond. State Government in Maryland, p. 71. Proceedings House and Senate. Apr. & May, 1780.

(3) Proceedings, House. 1781, p. 36; 1782 (Nov.) p. 75; 1783 (Nov.) p. 39; 1785. Report of Committee on Proceedings of Commissioners of Confiscated property.

nal settlement was consequently not effected, in most cases
(1)
until long after the war had ceased. Thus the confiscation of British property was of small direct benefit to the state at the time of greatest need, but indirectly it served a good purpose as a convenient fund for the security of bills of credit and of certificates of debt.

These three measures - the general property tax, the issue of bills and certificates and the confiscation of British property - embody practically the whole of the revenue legislation of Maryland during the Revolution. A solitary effort to borrow money abroad met with little success. The special commissioner of the state, Matthew Ridley, was successful indeed in negotiating a loan of \$ 40 500 with
(2)
the Messieurs Van Stophorsts of Holland in 1782; but the Legislature, believing the terms disadvantageous, annulled the contract and directed the commissioner to refund the money already obtained by him. The final settlement of the matter, however, was not effected for many years.

It is not necessary to enter into the details of the expenditures during this period. Excluding the administrative expenses of the government they were almost entirely

(1) Proceedings of House of Delegates, 1795, p.7.

(2) Proceedings of House of Delegates, 1792.

for military purposes, ceased at the close of the war and left no permanent impress on the character of the appropriations. Besides the cost of supporting its own military force Maryland was called upon, of course, to bear its portion of the expenditures of the Continental Congress. The requisitions made for this purpose upon the state, however, were paid with little promptness. At the final casting up of accounts between the several states on the one hand and Congress on the other, Maryland was found to be among the six "debtor" states - i.e., among those which had paid less than their proportionate share of the general expenses of the Central government. Congress refunded the differences due to the creditor states, but Maryland, along with the other debtor states, never paid the balance which it owed.

2.

The close of the Revolution found the state treasury (1) depleted, and, what proved equally as serious, thoroughly disorganized. This disorganization was due in part to the difficulty inherent in the attempt to do business with several forms of circulating medium, and in part to the insufficient treasury staff. It was no mean task to keep books

(1) Proceedings of House of Delegates, 1782 (April) p.5.

balanced or to render them intelligible when the accounts entered were sometimes in specie, more often in certificates of debt and bills of credit, and not infrequently in actual commodities - tobacco, wheat, pork, etc. To keep track of the continual variations in the rates of depreciation, of which each bill and certificate had its own, was a labor in itself. As it was, the Legislature in its efforts toward economy, had undervalued the need of an efficient clerical staff, and the small force of officials provided were unable to cope with the cumulating work thrust upon it. Moreover, the sheriff, county clerks and others entrusted with the collection of the public revenues had become excessively lax in making returns to the Treasury. Heavy penalties were enacted against such negligent officials but the laws were seldom enforced. Under the plea of industrial distress hundreds of appeals were made to the Legislature for release from debts or for the benefit of insolvency acts. Indulgence was readily granted, to the
(1)
confusion of the finances, and, when applied so indiscriminately as it was, to the encouragement of inefficiency and fraud. The existing distress of industry, however,

(1) Proc. House of Delegates, 1783, p.47; Md. Laws, 1786, ch. 21, Ch. 51; 1787 (Nov.) ch. 29.

must not be underestimated. The war had drained the resources of the people to the utmost, and time was required to restore commerce to a normal condition. Recuperation, moreover, was seriously hampered by the confusion in the circulating medium. People could not raise money to pay their debts. The property tax had become so difficult of collection that the annual produce was less than its annual arrears, and in 1785 it was discontinued. As a partial offset there was a rapid increase in the receipts from port duties following upon the close of the war. These jumped from almost nothing in 1782 to ⁽¹⁾ 33 093 in 1786. But, notwithstanding the addition of this important item, the revenues of the treasury were insufficient to meet the ordinary governmental expenditures plus the interest on the state debt.

In the presence of this confusion, the Legislature seemed helpless. No new taxes were imposed. The treasury drifted along without definite policies, paying ready money when it could, and when it could not issuing more certificates. The state debt was the matter of most immediate concern, and for its payment the Legislature did make half-

(1) Proceedings of the House of Delegates, 1786 (Nov.) p. 39.

hearted provision. This debt, as has been noted, consisted of bills of credit, certificates of debt and, less important, the unsettled Van Stophorst loan. Bills of credit had been reduced by the steady process of receipt and cancellation by the Treasury to the sum of \$186,275,⁽²⁾ and the redemption of this small amount gave no cause for worry. Certificates of debt, however, had increased rapidly and were still being issued. In the absence of funds wherewith to redeem this indebtedness the obvious course was to reduce the ill-assorted mass of debt to some form of harmony. This the Legislature attempted in an act whose title explains its purpose: "An act to establish funds to secure the payment of the state debt within six years, and for the punctual payment of the annual interest thereon".⁽¹⁾ By this act the old system of pledging a separate security for each form of obligation was done away with, as far as was consistent with earlier promises, and a general fund was established by throwing into one all the proceeds from the sale of confiscated British property, debts due the state on bonds, and arrearages of taxes accruing before 1783.

(1) Maryland Laws, 1784, ch. 55.

(2) Proceedings of House of Delegates, 1784, (Nov.) p.22.

This fund was pledged for the payment of all forms of the state debt on or before January 1, 1790, and for the punctual payment of an annual interest of 6% in the meantime. The act was based upon the belief that the debts due the state were sufficient, when paid, to meet all the state's obligations. No provision, however, was made against the possibility of insufficiency except for that portion of the debt not maturing until after 1790. For this object a tax of two shillings six pence per hundred pounds of real and personal property was levied.

The "funding law" of 1784 accomplished little. State debtors were slow in settling with the treasurer and the Legislature, as a rule, gave further indulgence; the sinking fund tax of two shillings sixpence was collected with great irregularity and with a heavy expense to the state.⁽¹⁾ As a result no appreciable fund was accumulated with which to redeem the debt in 1790. But by a less direct means the same purpose was accomplished. This came about through the receipt and cancellation of certificates by the treasury, as had been the case with bills of credit. Up to 1785 the issue of new certificates annually exceeded the cancellation of those received, but thereafter the conditions were -----
(1) Proceedings of House of Delegates, 1794, p. 83.

reversed and each year a considerable amount of such obligations was permanently retired.

Chapter II.

PERIOD OF SURPLUS FINANCIERING. (1789 - 1816)

The mere adoption of the National Constitution did not effect any radical changes in the state's financial policies. The prohibition, contained in that instrument against the use of bills of credit by the individual states was no hardship to Maryland. No such bills had been issued for several years, and although their issue had been at times strongly urged by a considerable party the proposition had ~~been~~ met with little popular favor, and it is highly improbable that paper bills would have been again resorted to even if the Legislative power had not been restrained. The similar denial of the right to levy port duties, however, was on its face, of vital importance to the state. Such duties had been the chief source of revenue since the abolition of the direct tax in 1785, and if no compensation had been made for this loss the treasury would have been seriously embarrassed. Ample compensation however, was immediately made by the funding law of Congress.

From the standpoint of financial legislation the years from 1790 to the close of the second English War are almost barren; from that of taxation entirely so, except for

an interesting tax upon banking capital levied in 1814. Treatment of the period will therefore be limited to the description of, first, the financial condition and practice in 1790; secondly, the fortunate series of events by which the treasury came into possession of a surplus large enough to render it independent of ordinary revenue, and, finally, the interruption to this happy condition caused by the war of 1812.

FINANCIAL CONDITION IN 1790.

The summary of the preceding chapter will have indicated the fiscal problem of Maryland at the time of its entrance into the new federation of states under a national constitution. The practices established hurriedly in a time of war had been allowed to continue almost unchanged. Little serious consideration had, indeed, been given to financial affairs. In most matters the Treasurer had been left to his own resources and ideas. The public accounts were still in confusion. Only a small portion of the many debts owing the state had been collected, and the total amount of such debts likely to be collected was a matter of vagueness. The only improvement effected had been in the

reduction of the state debt, which now stood at about \$835,000. The reduction had been effected by the process, already described, of cancelling bills and certificates as received in treasury payments. New certificates were still issued, but after 1789 the annual amount issued was unimportant.

Ordinary Receipts and Expenditures - 1790.

The use of the general property tax during the Revolution and of port duties during the remaining years of independent statehood represented the only serious attempts by the Legislature to raise revenue by taxation. Indeed, the only other form of taxation at any time resorted to was that of the license tax, of which the principal applications had been carried over unchanged from colonial times. Licenses, for the granting of which payments were exacted, were required in five instances: (1) Marriages, (30 shillings); (2) Hawkers and Pedlars (x 6); (3) Keepers of Ordinances (x 6); (4) Retailers of spirituous liquors (x 3) (5) Liquor sellers at horse races (30 shillings). The tax

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- (1) Md. Laws, 1777, ch. 12. (2) Md. Laws, 1784, chs. 7, 37
(3) Md. Laws, 1780 (Mar.), ch. 24; 1784, ch. 7, 37.
(4) Md. Laws, 1780, idem. (5) Idem.

on billiard tables, imposed in 1780 did not continue as a state tax, although it was shortly reimposed for the benefit of the county governments. Marriage licences were issued by the county courts and the taxes collected by the (1) clerks thereof. In the other cases the licenses were issued by the same courts, but the collection of the tax was entrusted to the sheriff of the county.

Other sources from which a regular revenue could be expected were very few. Fines and forfeitures exacted from violators of the law gave a small and irregular revenue to the public treasury. Fees were charged for numerous services performed by the state, but the money so received was used almost entirely to remunerate the officers performing the services. The land office - from escheats, ^stransfers, sales, etc., produced a considerable but variable revenue. The State of Maryland never shared in, nor laid claim to, any portion of the public domain west of the Alleghanies. But, as successor to the Proprietor, the state came into possession of considerable land, principally in the western part of the state, in the disposal of which the Legislature (2) had a free hand. Part of this land was sold and the proceeds used for the ordinary expenses of government, but the -----

(1) Md. Laws, 1792, ch. 7.

(2) Md. Laws, 1781, ch. 20.

major portion was used for bounties or pensions to the soldiers of the Revolution.

The ordinary expenditures of the state were correspondingly small, the most important single item being the civil list - i.e., the expenses of the administrative department. Salaries were moderate, with little tendency to increase, and the number of salaried offices was kept at the minimum, by applying, whenever possible, the fee-system of remuneration. The cost of the judiciary was at this time divided between the state and the county governments. The former bore the expenses of the essentially state courts, - the chancellor, the court of appeals, the general court, and the admiralty court, while the several counties by local taxes provided for the costs of the county courts.

Beyond these purely governmental expenses there were but two standing appropriations that had to be provided for annually. One of these arose from the allowance of half-pay pensioners⁽¹⁾ to the disabled survivors of the Revolution; the other from the grant of state aid to certain selected schools.⁽²⁾

(1) Maryland Laws, 1778 (Oct.) ch. 14.

(2) These were St. Johns College and Washington College.

Treasury Administration - 1790.

The framework of government, so far as it concerned the financial administration, was thus outlined in the State Constitution of 1777: A governor, with no power of veto; an Executive Council of five members, to act solely in an advisory capacity; a legislature of two houses, both of the same authority, except as regards money bills which could originate only in the lower house; two treasurers, (1) one for either shore; and an auditor of the public accounts. The provision made for two treasurers was a mere palliative to the long-standing jealousy between the shores. In practice the system was unworkable; the Eastern Shore treasurer speedily degenerated into a mere agency, and the Western (2) Shore treasurer became the responsible officer. Occasionally other offices were created for special purposes, such as the Intendant of the Revenue in 1782 for the collection of tax arrears, but none of these additions had been permanent. There was a strong prejudice against the creation of salaried offices, and as a rule, the easier method was adopted of throwing such new duties as developed upon the

(1) This office was not specifically created, but was recognized by the Constitution.

(2) Hereafter the word "Treasurer" will be used to designate this officer.

shoulders of the treasurer.

The government of the state was strongly centralised. Towns were being incorporated with considerable autonomy, but the larger county divisions continued to be little more than administrative units. The controlling body in the county was the Levy Court, composed of the associated justices of the peace. The authority of these courts had been gradually extended to include the management of all ordinary county affairs and, within specified limits, the levy and expenditure of local taxes, but the members of the courts were appointed by and strictly responsible to the state Executive. The county sheriffs were the only local officers locally elected. Both the sheriffs and the levy courts were used by the central government as collecting and disbursing agencies.

The Constitution made no reference to financial procedure other than the provisions that only the House of Delegates should originate money bills, and that no money bill should be attached as a "rider" to a bill of another character. The Bill of Rights, which was adopted at the same time as the Constitution, did, however, place explicit limitations upon the power of taxation. The first was a

prohibition of poll taxes. The poll tax had been greatly abused by the Proprietor, and, in just wrath, it was declared that such taxes are "grievous and oppressive and ought to be abolished; that paupers ought not to be assessed for the support of government." The Bill of Rights, however, went further than this and laid down a second canon of taxation. It declared that every person "should contribute his proportion of public taxes for the support of government according to his actual worth in real or personal property within this state", recognising, however, "that fines, duties or taxes may properly and justly be imposed or laid with a political view for the good government or benefit of the state." This limitation of the taxing power to the citizens' actual worth in real and personal property later became a cause of frequent controversy; and, although liberally construed by the courts, introduced an element of uncertainty into many of the tax laws of the Legislature. It rendered many important taxes inoperative until passed upon by the courts, and prevented the introduction of many reform principles.

THE STATE DEBT AND THE FUNDING LAW OF CONGRESS.

The funding law as passed by Congress April, 1790, provided for the funding into one of three distinct forms of indebtedness - the foreign debt, the domestic debt, and the debts of the individual states. With the first of these Maryland had no concern. The funding of the ill-assorted mass of domestic debt did, however, have a direct bearing upon the finances of this state. The Maryland treasury had come into possession of a considerable amount of the various obligations issued by Congress during and after the Revolutionary War. These had been purchased in preparation for the state's being required to bear its quota of the continental debt. So far they were unproductive but under the funding law were now convertible with interest into new United States stock. By this conversion the state treasury received in payment of the principal of the old congressional securities \$628,989.80 in 6 % stock, (of which 1/3 was not to bear interest until 1801) and, in addition, \$298,320.31 in 3% stock in payment of accrued interest.

The third portion of the Funding Law - that provid-

(1) Maryland Laws, 1785, ch. 88.

(2) Proceedings of House of Delegates, 1791, p.30. Report of Committee of Claims.

ing for the assumption of the debts of the several states - entailed much greater discussion but was of less direct benefit to Maryland. The assumption provision was to the effect that the certificates of any state issued prior to 1790 for expenses incurred in the prosecution of the war should be exchangeable for United States stock. The exchange, however, was of a somewhat complicated character. Each subscriber received of the sum subscribed an equal amount of United States stock of which four-ninths bore 6% interest, three-ninths bore 3% interest, and the remaining two-ninths bore no interest until 1801 and thereafter 6%. The amount of stock for which each state might subscribe was proportioned to the supposed amount of certificates outstanding at the time. No account was taken of the relative burden the states had borne, or even of the original amount of certificates issued. Maryland felt that its efforts to pay off its own debts had been wasted, (1) and viewed the passage of the assumption measure with no great favor. A resolution in condemnation of the policy was passed by the House of Delegates but was later rescinded by the (2) casting vote of the speaker.

(1) Proceedings House of Delegates, 1791, p.88.

(2) Md. Journal and Balto. Advertiser, 1790, Dec. 31 and 1791, Jan. 11. First resolution passed by a vote of 32 to 26.

The measure having become law, however, it was to the manifest advantage of the state to have as many as possible of its creditors take advantage of it. To most of these the offer of Congress was in itself not a sufficient inducement. The state credit was practically as good as that of the United States and the exchange of the securities of the former for those of the latter, under the complicated interest arrangement, meant a surrender of a 6% investment for one of 4% or less. For the state to force its creditors to make the exchange would be on the state's part a virtual repudiation of so much of its just debt. An act of the legislature was passed which attempted to supply the necessary inducement and at the same time maintain the faith of the state. By this act the state agreed to receive from all subscribers under the assumption provision of the Funding law their proportions of 3% and deferred stock, and to give in exchange an equal amount of United States 6% stock bearing immediate interest.

The maximum amount of \$800,000 allowed for the subscription of Maryland certificates proved ample. At the expiration of the time fixed by Congress only some \$302,
(1)
522.66 had been subscribed, and, under an extension of the

(1) Proceedings of the House of Delegates, 1791, pp. 87-88.

time privilege, this was increased to only \$517,491. This sum, however, did not completely exhaust the debt owing by Maryland. A small number of creditors, whether from indifference or ignorance, did not take advantage of the act at all. Furthermore a considerable portion of the outstanding certificates, being issued for other than military purposes were not included within the benefit of the law. (1)

Both of these classes of debt had to be borne by the State Treasury itself, but their total amount proved inconsiderable. Many of the certificates, originally issued in small denominations to soldiers in the field and others, at a time when paper money was of little worth, had been lost or destroyed and were never presented for payment. (2) The Van Stophorst loan was the most important part of the debt not taken care of by the assumption law. The state had never denied the validity of the original loan of \$⁴⁰40,500 with interest, (2) but disputed certain extra sums that had been added as damages and costs. A compromise was finally effected in 1793 whereby the creditors agreed to accept United States deferred stock at par in full settlement of their debt.

(1) Proceedings of the House of Delegates, 1791, p.87.

(2) Idem. 1791, p.89.

(3) Idem. 1795, p. 63; 1796, p. 30.

COLLECTION OF THE DEBTS DUE THE STATE.

The collection of the numerous outstanding debts due the state was the principal financial concern of the government during the first two decades. These debts represented: (1) money due from the sale of confiscated property; (2) arrearages of taxes and of other revenues; (3) a disputed claim to a large amount of Bank of England stock; (4) certain miscellaneous debts, some holding over from colonial times, and too small in amount to warrant separate treatment.

Confiscated British Property. Because of the scarcity of purchasers with ready money during the war period the State had adopted the policy of disposing of confiscated property on credit, the purchaser being required as a rule to deposit a bond for the security of his debt. The same scarcity of specie continuing during the years immediately succeeding the war, the same policy was also continued. By

(1)
the act of 1784 such debtors were granted a complete exemption from the payment of the principal of their debts for a period of five years, and a similar exemption was

(1) Maryland Laws, 1784, ch. 55.

promised future purchasers. With the expiration of this period of grace in 1790, a still further indulgence was shown. A system known as "installing" was adopted, by which all purchasers, future as well as past, were permitted on deposit of a bond, to make settlement in a series of annual instalments. (1) Payment of the principal sum was permitted to be made in state certificates, but the retirement of certificates almost immediately deprived debtors of this means of payment, and in compensation it was provided that the annual instalments might be paid in United States (2) stock. As this stock was at a discount the permission was quite generally availed of. The act was enforced with little strictness. In a few cases bonds were executed upon, or the property retaken, but without any great benefit to the state, and many debtors were entirely excused from payment. The disposal of the unsold property and the final settlement of the various accounts were not accomplished for some thirty years.

Arrearages of Taxes, etc. The presence of this item was attributable almost entirely to the negligence of those entrusted with the collection of the public revenues. Nor did these arrearages arise altogether during the war period or in connection with the direct taxes of 1777-1785, in

(1) Maryland Laws, 1789, ch. 47.

(2) Idem., 1790, ch. 41. (27)

which cases the extreme difficulty of collection offered good excuse. The habit of negligence was so prevalent that such revenues as those arising from licenses and port duties, which were extremely easy of collection, were in many cases not turned into the treasury for several years after they were due. The same system of "installing" was applied to tax arrearages as in the case of the debts due for sales of confiscated property, and to facilitate the collection of all these debts a special official was appointed. An Intendent of the Revenue had been appointed for a similar purpose during the Revolution but the office had been discontinued in 1786. In 1790 the office was revived (1) under the name of the Agent of the State. At first the agent was merely given power to supervise the collection of the arrears of the direct taxes. Later, however, his field was not only so extended as to include the collection of all classes of revenue not promptly paid, but also he was given a general supervisory power over all payments into the treasury. He was vested, moreover, with almost unlimited discretion as to prosecuting, releasing or compounding with state debtors. As a result of the exertions of the state's agent the larger portion of the debts due the state

(1) Md. Laws, 1789, ch. 50.

were liquidated; but at the time of the abolition of the office in 1801 there was a considerable amount not yet collected. This amount tended to increase rather than to grow less; in 1818 it was estimated that fully \$260,000 would
(1)
be lost to the state by reason of bad debts.

(1) Proceedings of the House of Delegates, 1818, p. 55.

The Bank of England Stock - Maryland's interest in

Bank of England Stock originated in colonial days. In 1733 for the first time, an emission of bills of credit was authorized to the amount of £ 90 000, and a sinking fund for the redemption of the issue was provided by levying a special duty upon tobacco exports. The management of this fund was placed in a board of trustees, resident in London, which received and invested in Bank of England stock the
(1) (2)
proceeds of the duty. In 1756, another issue of bills was sanctioned upon the same provisions as the earlier issue, except that a land tax replaced the tobacco duty. For various reasons this fund in London was not drawn upon in full; and by gradual accumulation amounted in 1775 to nearly
(3)
£ 30,000. With the first skirmishes of the Revolution the convention immediately drew upon the London trustees, but they, staunch loyalists, refused to honor the drafts; and the state retaliated shortly by confiscating their property in Maryland. With the cessation of the war, the state made repeated attempts to recover its holdings of bank stock;
(4) but, the trustees, reduced now to two by the death of one of their members, refused to make an accounting until

(1) Md. Laws, 1733, ch. 6.

(2) Md. Laws, 1756, ch. 5.

(3) Proceedings of the House of Delegates, 1777 (June), pp. 110-113.

(4) Md. Laws, 1783 (April), ch. 35.

(1)
their property should be returned by the state. The settlement of the question now depended upon the attitude which the British Government should assume. That government had never actually seized the stock concerned, but, at the outbreak of hostilities, had forbidden the payment of dividends thereon, and seemed disposed to sanction the position of the trustees. Nevertheless the state, through a

(2)
special agent instituted suit in the English courts for the recovery of the stock with accrued interest. The fight was long drawn out; the court was unwilling to assume the responsibility of deciding in such a delicate matter, and intimated that the case was one for diplomacy to settle.

Acting on this advice the state referred the matter to the President, who directed the American minister to present

(3)
the claim to the British Government. After a long controversy, which at times looked hopeless for Maryland, the claim was finally recognized. The Bank of England stock to which the state then became entitled was disposed of for \$648,484.34, and the money invested in the stock of the

(4)
United States Government.

(1) Md. Laws, 1784, ch. 76.

(2) Idem. 1784, ch. 76, 1791, ch. 86.

(3) Proceedings of House of Delegates, 1796, ch. 72. Md. Laws, 1801, ch. 103, 1802, Resolution.

(4) Proc. House of Delegates, 1806, pp. 8 and 18. 1807, p. 7.

THE TAX ON BANKING CAPITAL.

The economic and political conditions of the colonial period gave little or no room for the establishment of banks. Such institutions demand for their successful existence a relatively complex form of industry, and prior to the Revolution, at least, industry in America was of an essentially simple type. Banking, in its primitive definition, as a convenient instrument for the issue of paper money, was frequently exploited in certain of the colonies, e.g., the Loan and Land Banks of Massachusetts - and usually with disastrous results. From this species of bank the Proprietary of Maryland was spared. Its occasional indulgence in paper money was in the form of the direct issue of bills of credit by the government itself. During the Revolution a well conducted bank could have been of great service to the state government, especially as a corrector of the currency disorder, but the few attempts made to establish such an institution had met with no success. (1) A similar fate attended a revival of the project in 1784, and it was not until 1790 that the Legislature gave its consent

(1) On several occasions during the Revolution the state offered to become surety for any bank that might be established. The offers however were not accepted. 1780 (June) ch.28.

to the incorporation of a bank by granting a charter to the Bank of Maryland.⁽¹⁾ Notwithstanding the immediate success of this institution the establishment of other banks proceeded very slowly. As late as 1810 there were but six banks in the state, of which four were situated in Baltimore City.
(2)
Thereafter, however, the extension was rapid.

The success of these new corporations inspired the hostility of a large class of citizens, the more so because of the natural tendency of the banking capital to centralize in one city. This hostility was in part the result of an actual fear that the former disastrous experience of the state with paper money might be repeated; and in part the expression of rural prejudice towards capitalistic institutions, from which, as the banks loaned only upon short time rates, the farming element could expect little benefit. This party demanded, in lieu of their complete abolition, that the banks should be subjected to a heavy tax. Nor was the demand restricted to banking institutions. The principle was definitely formulated that all corporations enjoying special privileges from the state - such as canal and road companies - should be compelled to make a return for

(1) Maryland Laws, 1790, ch. 5.

(2) See Bryan, History of State Banking in Md., p. 25 et seq.

such privileges. From 1804 to 1813 this question was a centre of legislative controversy, the House of Delegates usually favoring the principle of a corporation tax, the Senate regularly rejecting it. ⁽¹⁾ Care was taken to popularize the proposal by so framing it that it might subserve the growing demands of the people for a public school system and for internal improvements; and, finally, in 1813 such a law was passed by both houses, but limited in its application to banks alone. ⁽²⁾ This combination of motive is shown in the following summary of the act as revised in 1814: ⁽³⁾

1. The banks of Baltimore City, together with certain banks in the western part of the state were required to complete the National Road as far as Cumberland at their own expense.

2. Each bank of the state was to pay to the state during the continuance of the act an annual tax of twenty cents upon each \$100 of paid in capital, and at the same rate upon every increase of capital; the total tax discountable before Jan. 1, 1816 into a lump payment of \$200,000.

(1) Proceedings of House of Delegates, 1804, p.84; 1806, p. 28; 1810, p.45.

(2) Md. Laws, 1812, ch. 79.

(3) Md. Laws, 1813, ch.122



3. The proceeds of this tax were to be invested in the reserved shares of specified banks, and be kept by the treasurer as a distinct and separate fund, to the credit of the counties equally, for the purpose of establishing free schools.

4. The charter of the banks accepting the act were to be extended until Jan. 1, 1835; and in the meantime the state was to impose no further taxes upon the banks, nor charter any other banking institution within the City of Baltimore.

The charter of the several banks, with one exception, had been timed to expire at the same date, January 1, 1815, and thus the enforcement of the act was made a comparatively easy matter. In its original form, indeed, certain features were strongly objected to by the banks, but, in its revised form, as given above, it was accepted by the several banks without undue cavilling. The tax was small, and the road construction provision was regarded as a good investment,- so good, in fact, that upon several other occasions similar arrangements were made for the construction

(1)
of roads and other internal improvements. As it turned

(1) Md. Laws, 1821, ch. 131; 1829, ch. 198; 1824 ch. 93; 1827, ch. 42.

out, however, the Cumberland Road, as did nearly all such enterprises in Maryland, made but scant financial return, and the investment of a million dollars or more made by the banks under this act was almost a complete loss. (1)

The small tax on capital stock - one-fifth of one per cent - was hardly a burden to the banks. It proved, however, a steady, easily collected and growing source of revenue to the state. Occasionally the receipts therefrom were diminished by the failure of certain banks, or by the release of others from the tax when in financial difficulty. But, as an offset to this, was the application of the tax to every increase in banking capital and to new banks as established. Over the course of some fifty years it yielded an average annual income of \$35,000.

(1) Bryan, History of State Banking in Maryland, p.61.

FINANCING OF THE WAR OF 1812.

Although the second English war was long brewing and although the State of Maryland, with its extended water front inviting naval depredations, was certain to suffer from such a conflict, the legislature failed to make adequate preparations for its coming. Laws were passed in (1) 1807 and 1811 for reorganizing and disciplining the militia, sadly neglected during the preceding twenty-five years (2) of peace; some ten thousand stands of arms were ordered; and various measures were considered for a state factory (3) for making military supplies, for erecting arsenals, and for encouraging the home production of cottons and woollens. But, as a whole, the precautionary measures taken were few (4) and ineffective. The legislature was unwilling to make sufficient appropriations, and depended upon popular enthusiasm to establish a well drilled militia. In Baltimore City and the northeastern counties this enthusiasm was strong, and with the first talk of war numerous volunteer companies were raised and equipped at individual expense. In the Southern counties, however, the belligerent attitude

(1) Md. Laws, 1807, ch.128; 1811, ch. 182.

(2) Md. Laws, 1808, ch. 210; 1808, Resolution.

(3) Md. Laws, 1808, Resolution. (4) Gov's.Message, 1813.



of Congress was unpopular and little preparation was made.

In its failure to make effective provision against the possibility of war the legislature was not without excuse. The National Government had been constituted the medium of national defense, and was presumably the responsible director of all military operations. As events developed, however, and largely owing to the unpreparedness of the national government itself, the state was left in great degree to its own resources. Early in 1813 the secretary of war asserted the doctrine that the United States would pay the expenses of all militia called out or recognized by that government. But, as the Chesapeake Bay immediately became and continued to be a centre of British aggression, the state was, in many cases, unable to wait upon the tardy action of the National Government, and was forced to raise troops, and even equip a small navy, upon its own initiative. Ultimately the state was reimbursed in part for the resulting expenditure, but in the meantime such expense had to be met by the local treasury. The method by which the necessary war funds were raised presents few points of interest. At the outset the Legislature adopted, and thereafter steadily adhered to, the policy of temporary loans.

No new taxes were laid during the whole course of the war, nor was any other effort made to increase the ordinary receipts of the Treasury. The ostensible reasons for the adoption of a borrowing policy to the exclusion of taxation (1) is thus summarized from a committee report of 1814: To raise funds there were only three alternatives, taxation, the sale of part of the state's investments, and loans. Taxation, in view of the war taxes of Congress was already "extended to its utmost limit." The sale of the state's investments was equally inadvisable in the depressed condition of the stock market. Borrowing was thus the most feasible alternative, provided the money could be obtained at six per cent. or less, and there was every reason to believe that this could be done. Taxes, the committee realized, must ultimately be resorted to, but it would be better to postpone the period of taxation until a "season of prosperity would increase the ability of the people to meet such a charge." Furthermore, it was to be considered that the United States Government should, and probably would, reimburse the state for its expenditures.

(1) Proceedings of the House of Delegates, 1814, p. 43.

This argument rested upon two optimistic assumptions first, that the war should be of short duration, and, secondly, that the expense to the state should not be great. Both of these assumptions proved to be true, and thus the temporizing policy of short time loans did not result in the disaster that would otherwise have occurred.

The long stagnation of business preceding the war had caused the accumulation of much idle capital in the hands of the local banks, and this was the fund upon which the Legislature now depended in authorizing a series of loans aggregating nearly a million dollars. Of the sum thus authorized there was actually borrowed \$436.000 , of which all but \$12.000 was advanced by the banks. As the total cost of the war to the state was estimated to have been slightly less than \$450.000 it would appear that only some \$14.000 was provided out of current revenues.

The several loans were negotiated at the uniform rate of six per cent. and were repayable in 1815-1816. As, however, no provision whatsoever had been made for their redemption there was no money then available for that purpose. Finally, in 1817, a settlement was effected with the creditors by which they agreed to accept United States six per cent. stock at par to the full amount of their several

claims. Thus the net result to the treasury of the war of 1812 was a decrease of \$436,000 in the capital account of the state.

THE EFFECT OF A TREASURY SURPLUS.

The war of 1812 was a marking-point in the financial history of the state. So far there had been little necessity of considering the question of ways and means; the problem had been to dispose wisely of an accumulating surplus. This surplus had been the result in part of economy of expenditure but in greater part of the series of fortunate events already described. The Congressional Funding Law of 1790, by relieving the state of the major portion of its indebtedness and providing the Treasury with a considerable fund of United States stock, had, at one stroke, raised the finances from a condition of grave difficulty to one of comparative security. The return of prosperity had enabled many of the state debtors to discharge long standing obligations to the state, and the money so received not only provided amply for the current expenditures but also produced occasional surplusses which could be invested in

(1)

interest bearing securities. Finally, the payment of the English Bank stock increased the public funds to such an extent as to render the Treasury almost independent of other revenue than that of interest on its investments.

In 1813, the invested capital of the state amounted to \$1,475.822.00, yielding an annual return of over \$90.000 and providing for about two-thirds of the ordinary expenditures. The form of investment was as follows:

Bonds of United States	\$934.822.
Stock of Local Banks	\$516.100.
Other stock	25.000.

State chartered banks were recent and to a great extent untried, but almost from their origin the legislature had adopted a policy toward these institutions which proved very beneficial to the public finances. This policy, as

(1) In 1796 the Treasury was in a condition to warrant a loan of \$200.000 in United States 6 % stock to the Commissioners of the city of Washington City to aid in the development of that place. (Md. Laws. 1798 Revolution and 1796 and 1797) This loan was repaid with interest in due time, and is quite distinct from the "advance" of \$72,000 to the United States for public buildings, authorized in the session of 1790. This "advance" was never repaid, and has for many years been the basis of a periodical claim offered in Congress. The point in dispute is whether the "advance" was intended to be a loan or a gift. The wording of the original act is inconclusive, but the absence of any provision for repayment or for interest would indicate that the money was intended as a gift. Unfortunately the records are so scant that it is not even certain whether the full \$72.000 was advanced (See 1842, Resolution 34) The sum of \$48,000 certainly was, and there is strong presumption that all was. (1791, ch. 45)

usually practiced, was to reserve to the state in each bank charter granted the privilege of subscribing at par to a certain, and usually a goodly, number of shares in such bank, the subscription to be made at the state's convenience. By this means the state was enabled to invest its funds in such institutions as should prove their worth and at par when the stock of the bank invested in was at a considerable premium. The rates of dividends paid by these banks were naturally subject to more or less fluctuation, but upon the whole this form of investment proved very productive, returning over a period of forty years an average dividend of over six per cent.

With an ample income thus assured from invested capital there was no incentive to increase the sources of revenue, and no attempt was made to do so. The existing sources were allowed to continue without change, but these, as has been noted, were few in number, of almost no burden, and excusable on other than fiscal grounds. Maryland had practically realized the millennial condition of a government supported without taxation. Absence of taxation and of revenue legislation was the mark of the first quarter century of the state's history - a fortunate thing in itself but productive of much later evil. At first, exemption

from taxation had been accepted by the people as a happy relief from the burdens of the Revolution, then a feeling was bred that such was the normal condition of things, until, finally, with a new generation, taxation, especially direct taxation, became to the popular mind a thing intolerable. "Capital Stock" was made a fetish of. The main endeavor was to preserve "the capital of the state which had been accumulated by the economy and foresight of our

(1)
ancestors." Such a policy, of course, could not survive any extraordinary demand upon the treasury, such as occurred at the outbreak of the War of 1812. For a time the blow was postponed by a temporizing policy of borrowing, but sooner or later the loans had to be repaid with interest. To do so the capital stock was violated, but grudgingly, and in full expectation that it would soon be restored to its former condition.

The desire to avoid taxation and to accumulate a "Capital Stock" acted as a compelling restraint upon extravagance of appropriation. Because of it the extension of the state's activities proceeded very slowly. The endeavor was to restrict the functions of the state as far as possible to those of bare administration and to leave the performance of all other public services to the country or

(1) Proceedings of House of Delegates, 1813, pp. 37-39.

town governments, although these bodies were still denied powers adequate to the task. Thus, when the demand for state encouragement of a free school system became so pressing that it could no longer be neglected by the legislature, the aid finally given was not in the form of a direct appropriation but by the indirect method of a special fund - the bank tax - which was regarded and treated as entirely distinct from the ordinary accounts of the Treasury.

The administrative expenses underwent little or no change. Salaries remained almost stationary, and the only new salaried office created was that of a "Trustee", whose sole duty was the management of the state's holdings of United States' Stock. (1) The annual session of the legislature tended to become more expensive, but the increase was as yet very gradual. The Judicial system of the state, however, underwent radical alteration, with consequent effect upon the cost of that department. The first change (2) was made in 1797, when in place of the former system of county courts, the state was divided into five districts, each with a chief justice and two associate justices. The cost of the new establishment was laid upon the counties.

(1) Maryland Laws, 1790 ch. 41

(2) Idem. 1796, ch. 43

(1)

In 1806 another change was made. The state was redivided into six districts, the former General court and Court of Appeals abolished, and all appellate jurisdiction transferred to a new court of appeals, composed of the chief justices of the six districts. Under the new system, however, all salaries were paid out of the state treasury. ~~The separate criminal court previously granted to Baltimore county the court of Oyer and Terminer and Gaol Delivery~~ allowed to continue, but in keeping with the new policy the ~~salary of its chief justice was made a state charge.~~ (2)

The first, and for long, the only important departure from the rule of limiting the state's financial activities to those of administration, was the authorization of a State Penitentiary in 1805. The movement for prison reform which swept over the country at the beginning of the century found in the prison system of Maryland a fitting subject for its ministrations. There was, indeed, an absence of system. The jails were county institutions; their character and manner of conduct dependent upon the whims of individual sheriffs. No special buildings were supplied, (4) and those in use were poorly equipped and badly managed.

(1) Maryland Laws, 1805 ch. 65, (2) Md. Laws, 18 ch.

(3) Maryland Journal, 1796, July 6.

(4) Governor's Message, 1796. Printed in Maryland Gazette (Annapolis) 1796, Nov. 24.

No thought was given to the possibility of reforming the criminal. Offenders of all classes were hoarded together indiscriminately, to the moral harm of lesser offenders and to the injury of the public interest. To ameliorate this
(1)
condition the Legislature in 1805 authorized the establishment of a central penitentiary, in which the new reformatory principles might be tested. By 1812 suitable buildings had been provided for the productive employment of the prisoners. The total expenditures for this purpose amounted to \$110,000, all of which had been provided out of
(2)
current revenues. The Legislature, although influenced in this undertaking largely by humane ideas, did not anticipate that the penitentiary would be a source of expense to the state. On the contrary, it was believed that, after a reasonable initial outlay, the new institution would support itself from the sale of articles manufactured by the prisoners, and would ultimately yield an actual profit.

(1) Maryland Laws, 1805, ch.

(2) Proceedings of House of Delegates, 1821, pp. 98,99.

CHAPTER III. PERIOD OF INDIRECT TAXATION.

A second period in the state's financial history began with the payment of the war loans in 1817. By that operation the capital of the state was reduced by \$436 000 and its annual income by the amount of the interest thereon—\$26 160. Nor was this the only effect of the war upon the public revenue. The business depression following upon the war bore hardly upon the banks of Maryland. Some were forced to suspend; others warded off ^{is} their fate by reducing their capitals. The state had \$516,100 invested in the capital stocks of certain of these institutions, and up to 1818 had been rewarded by annual dividends averaging more than nine per cent. By suspension and capital reduction this was now reduced to less than five per cent, representing a money loss to the state of over \$20 000 a year. As it happened, this decrease in revenue was accentuated by an almost coincident increase in expenditure. The latter phenomenon, however, was neither so sudden nor of such immediate importance as the former, nor can it be so ascribed so distinctly to the war. It represented rather a relaxation of the old spirit of economy. Conditions were shaping for a broader view of the question of the state's rela-

tion to the public service.

The effect of these opposing movements - decreasing receipts, increasing expenditures - was to change completely the old order of things. From a condition in which the chief problem had been to dispose of an accumulating surplus, the Treasury was suddenly reduced to a condition of deficit. At first the Legislature tried to gloss over the fact that there was a permanent deficit by further borrowing from the banks and by other temporary devices. These failing it became necessary to revise the whole revenue system. Taxation was revived, but in so doing the Legislature acted fitfully, unwillingly and with an overwhelming prejudice (1) against direct taxation. For a while indeed even a modified direct tax had to be resorted to, but it was small in amount, short-lived and offered in a form as inoffensive as possible. With this exception the new financial measures carefully avoided any semblance of direct taxation. The field of the license tax was broadly extended, and such non-taxing revenue measures as a state lottery system ^{were} particularly favored. By these means the revenues were in time made equal to the ordinary expenditures. The Legislature, however, was slow to grasp the permanent character -----

(1) Governor's Message, 1820. (Niles' Register, vol. 18, p. 131)

of the changed conditions. The ideal of a non-taxing state government still held sway. The new taxes imposed were for long regarded as temporary, a necessary evil to be borne until some streak of fortune should restore the Treasury to its former condition of surplus. The heavy investment made by the state in internal improvement companies was, in one view, but an expression of this desire,- a means of sudden enrichment.

During the latter half of the period now under review this question of state aid to internal improvements enters, and in time becomes the dominating factor in the public finances. For several reasons, however, the discussion of this important topic can be conveniently and logically postponed. In the first place, the money expended in improvement ventures was derived entirely from the issue of long term bonds, the interest charge of which did not become a serious burden until nearly the end of the period. And, in the second place, so firmly rooted was the early belief that these investments would be self-supporting, that even when they failed to become so, the Legislature comforted itself with chimerical hopes, and for a long while refused to recognize the true situation. Thus up to the collapse of the whole movement in 1841 the financial legislation of

state
the[^] was affected in little, if any, degree by the introduction of the new policy. In the intervening time the ordinary business of the treasury was conducted distinct, as it were, from the business of internal improvements.

NEW FORMS OF TAXATION.

County Assessments.

The need for immediate revenue forced the Legislature in 1821 to the extremity of a direct tax. It was intended simply as a temporary measure, to be dispensed with as soon as other means could be devised for relieving the
(1)
treasury distress, and, in fact, was in operation only five years. Two methods of levying such a tax suggested themselves: first, the usual one of a direct percentage tax upon the value of the real and personal property within the state; and, second, the more indirect method of levying specific lump assessments upon the several counties, leaving to those bodies the labor of collection. Almost without dispute the county assessment system was determined upon. The manifest weakness of such a system was that the apportionment of the assessments among the counties would

(1) Proceedings of House of Delegates. Report of Ways and Means Committee, 1821, p.56.

necessarily be more or less arbitrary, but, on the other hand, there were plausible reasons in its favor. In the first place it would render unnecessary the difficulty and expense of a new general assessment. No property tax had been imposed by the state, and in consequence no general assessment had been made, since the close of the Revolution; and the assessments used by the local governments for the levy of local taxes, although made by legislative sanction (1) and in conformity to standing acts, had been too irregular and differed too greatly in details to form a basis for a state levy. In the second place, and what appealed more strongly to the temper of the time, a new general assessment, with the resulting machinery, savored too much of a permanent institution.

As a basis for the apportionment among the counties of the amount assessed by the act of 1821 the proportion table used by the Federal government in levying the war taxes of 1813-1816 was bodily adopted. That table had been prepared by United States agents in the hurry of war and was doubtless very defective. But even assuming its correctness at the time of its preparation the important changes that had since taken place in the relative growth of the several counties rendered it an extremely inequitable basis

(1) Laws of Md. 1785, ch. ~~and~~ 1812 ch. 191

(1)
of taxation. Notwithstanding this, the same scheme of ap-
portionment was adhered to in the assessment of 1822, (2) and
with slight changes, and these without sound reason, (3) in
the assessments of the three succeeding years. (4) That it
was little objected to was probably due to the comparative
smallness of the amounts assessed. The largest sum demand-
ed of any one county was only \$19,468.00 - for Baltimore
county in 1822,- and the smallest only \$320.00-for Caroline
county in 1825.

In form and phraseology the successive acts were al-
most identical. The Levy Court of each county was simply
directed to levy upon the assessible property within its
jurisdiction a stated sum of money, clear of expenses, to
be collected in the same manner as the ordinary county
taxes, and to be paid to the state treasurer within a spec-
ified period of time. Extra bonds were required of the
county collectors, and strict penalties provided for neg-
ligence. As the Levy Courts were appointed by and respon-
sible to the central government there should have been no

(1) Proceedings of House of Delegates, 1823, p.97. For
table see Niles' Register, 1813.Sept.11.

(2) Md. Laws, 1822, ch. 139.

(3) By 1823 ch. 150 the several assessments were slightly
more than doubled; but in case of Baltimore county was only
increased 1 2/3 times and in case of Washington co. 2 1/2
times. (4) Md. Laws, 1823, ch. 150; 1824, ch. 159; 1825,
ch. 141.

difficulty in enforcing prompt accounting, but owing primarily to the customary indulgence of the state toward its
 (1)
 debtors, the returns were very irregular, and some 25% of the total amount levied was never collected at all. This is shown in the following table which gives the amounts assessed upon the counties by year and the amounts collected during the course of the corresponding fiscal year:

Amounts assessed by Act of		Collected by Dec. 1. of	
1821	\$30,357.00	1822	\$2,544.00
1822	60,714.00	1823	9,138.00
1823	60,557.00	1824	52,827.29
1824	40,371.33	1825	40,786.90
1825	20,185.66	1826	33,357.63
		1827 -	32,399.57
-----		-----	
Total Assessment	\$212,184.99	Total collected	\$171,053.39
	171,053.39		

Uncollected		41,131.60	

 (1) Proceedings of House of Delegates, 1823, p.49; 1822, p. 23. Md. Laws, 1822. Resolution 19. 1823, ch.200. 1824, ch. 151. 1825, ch. 216. 1825, Resolutions, 28, 42, 80 and 87. 1826 Resolution 39.

License Taxes.

The comparatively little use previously made of the license tax offered a tempting opportunity to the Legislature in its search for indirect methods of taxation. The opportunity was availed of, and the decade succeeding 1819 witnessed a sudden and broad extension of the license principal. The license taxes already in force were continued, in most cases increased, and a number of new forms were introduced. From this time dates the license tax as applied on the southern principal as a general business tax.

Traders. The extension of the license tax to merchants as a class was a matter of gradual development. The first step was taken in 1820, when a license, of very moderate cost (\$8), was required of "Retailers of Dry Goods". Under this term, however, was comprehended only those dealing in wares of foreign production, and importers selling in the original package were specifically exempted. The wording of the act was sufficiently broad to include dealers by wholesale as well as by retail, but this was apparently not the intention. Two years later a supplementary act brought importers and wholesalers within the provisions of the

(1) Md. Laws, 1819, ch. 184.

(2) ~~Idem, 1821, ch. 246, and 1824, ch. 158.~~

(1)

former act, but at a much higher license charge (\$50).

The legality of the tax upon importers selling in the original package was immediately questioned. The tax was affirmed by the Maryland Court of Appeals, but, on appeal to the United States Supreme Court, it was held that such a tax violated that section of the United States Constitution which denied to the state the power to levy import or export duties, as well as the section vesting Congress with control over foreign commerce. The Court argued that the Constitution conferred upon the United States Government exclusive power of levying import duties; that the payment of such duties by the importer implied in him a right to sell in some form or other; that sale in the original package was the most convenient expression of this right; and that a license tax upon importers was really a tax upon imports and therefore unconstitutional. The state, of course, could not be denied indefinitely the power of taxing goods simply because they had been imported at some remote period, and this power, in the Court's opinion came into play as soon as such goods lost their character of imports by being "incorporated or mixed with the mass of property" in

(1) Maryland Laws, 1821, ch. 246, and 1824, ch. 158.



(1)
the county^r. This somewhat indefinite phraseology meant, evidently, that "incorporation" would take place whenever the original package was broken or the goods had passed from the hands of the original importer. The decision was of considerable financial importance to Maryland, as the license tax in question would have been very productive, owing to the large and rapidly growing foreign commerce of Baltimore City.

In 1828 a more comprehensive law was enacted. Under it, no one, except the actual producer, was permitted to sell wares of any description, whether by retail or wholesale, whether of foreign or domestic production, without first obtaining a license (\$12).⁽²⁾ A higher rate (\$18) however, was exacted from Keepers of Ordinances, and, with some exceptions, all other retailers of spirituous or fermented liquors in quantities less than a pint. The sheriffs were required to make returns of all trades subject to the law, and were given incentive for strict accounting by allowing them a fee for each license taken out which was upon their lists. Itinerant trades^r - hawkers and pedlars - were not included within this law.

(1) Brown v. Maryland, 12 Wheaton 419. (Chief Justice Marshall handed down the opinion).

(2) Maryland Laws, 1827, ch. 117.

This system of a uniform license charge, however, was superseded in 1832 by the more usual one of adjusting
(1) the charge to the magnitude of the business conducted. The cost of the license was now graduated according to the amount of stock on hand at the principal season, the rates varying from \$12. for stock worth less than \$1,000. to \$50 for stock worth over \$20,000. As usual, however, keepers of ordinance , taverns, etc., were accorded special treatment, such persons being required to pay a 5 % tax upon any excess above \$500. in the annual value of their places of
(2) business, in addition to the regular trader's license.

Auctioneers. The auctioneer's license tax was the result of the diversion of the tax on auction receipts from the Baltimore City Treasury to that of the state. The City of Baltimore since the second year of its incorporation had imposed a tax upon the receipts of auctioneers, acting apparently upon the general authorization of its charter "to provide for licensing and regulating auctioneers and pawn-
(3) brokers." The proceeds of this tax had been applied, at
(4) least in great part, to deepening and cleaning the harbor,

(1) Md. Laws, 1831, 262. The suggestion of such a change had been made as early as 1823. Proc. of House of Delegates 1822, pp.46,47. (2) Cf. Md. Laws, 1833, ch. 266.

(3) Hollander, Financial History of Baltimore, p.77.

(4) Proc. House of Delegates, 1819, p.70; 1826, p.403.

a measure which the city party claimed was "not only of immense importance to the city but to the state at large." Notwithstanding such arguments the legislature had frequently discussed (1) the advisability of converting this source of revenue to the uses of the state, and with the financial stringency following the war the temptation could no longer be resisted. A tax of one per cent., the same as that previously imposed by the city, was levied upon all sales at public auction, and the privilege of conducting such auctions was confined to auctioneers, appointed by ^{the} (2) governor and council. The number of these auctioneers was limited to twenty. They were required to take out annual licenses (\$750), and render accounts to the city court. Auctioneers of special classes of goods, such as books, prints, horses and carriages, were subjected to a lesser tax. Despite the monopolistic character of this new system it has continued in its main features down to the present day.

In mitigation of the loss to Baltimore of the auction duties the annual sum of \$20 000 was promised that city for the purpose of improving its harbor.

(1) Proceedings of House of Delegates, 1816 (back). Md. Laws, 1821. Resolution, Jan. 13.

(2) Md. Laws, 1827, ch. 111. 1828, ch. 148.

hawkers and Pedlars. The curious prejudice against "hawkers and pedlars", by force of which such persons had from an early time been subjected to an extravagant tax, showed no sign of diminution. On the contrary the tax was increased, and financial considerations were sacrificed to this feeling of antipathy. In 1820 the charge for a "hawker's and Pedlar's license was raised to \$40,⁽¹⁾ and somewhat later a law of utmost stringency was directed toward persons of this occupation. The license charge was increased to \$50 for pedlars using one horse and to \$60 for those using two, the rate for foot-pedlars being continued at the earlier figure; the privilege of such license was not to extend beyond the limits of the "shore" wherein issued; the license had to be carried and shown on demand; and swift penalties were provided for the slightest violation of the⁽²⁾ law.

Billiard Tables. A license tax upon billiard tables for⁽³⁾ the benefit of the counties had been early authorized; and ~~the~~ several cities and towns had been accustomed to derive revenue from this source. But no attempt was made to levy⁽⁴⁾ such a tax for the use of the state prior to 1825. The

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- (1) Md. Laws, 1819, ch. 40. (2) Idem. 1840, ch. 154.
(3) Md. Laws, 1798, ch. 113 (\$50)
(4) Md. Laws, 1824, ch. 64.

imposition of the present state tax (\$100), however, did not deprive the local bodies of the power of imposing an additional tax upon the same objects.

(1)

Attorneys-at-Law. In 1822 an interesting resolution was passed by which attorneys-at-law were required to take out an annual license (\$5.00) the proceeds of which were to be subject to the order of trustees for the benefit of Luther

(2)

Martin. The resolution was probably unconstitutional, being a use of the taxing power for private purposes, but it was rescinded before its legality was questioned, although not before it had been actually enforced for nearly a year.

(4)

Note-Brokers and Dealers in Lottery Tickets. In 1819 a law was passed requiring all brokers engaged in buying and selling bank notes or lottery tickets to obtain an annual license costing five hundred dollars in addition to bonding to the state for \$20,000, and subscribing to a most stringent oath. The object of these extravagant requirements was social rather than financial - to drive out of business the class of men known as note-brokers, who had risen as usual

(1) Md. Laws, 1821, Resolution, 60.

(2) It was to cease at the death of Martin.

(3) Md. Laws, 1822. Resolution 16.

(4) Md. Laws, 1818, ch. 210.

during a period of general suspension of specie payments
(1)
among the banks of the country. No revenue was received
under this law, nor indeed were any applications made for
its benefit. Three years later a less stringent act was
passed for the licensing of dealers in lottery tickets, but
as this is associated with the general lottery legislation
it can be better treated later.

Partnerships. The act of 1826, authorizing limited partnerships, provided that such companies should take out an annual license for which they were to pay $1/2$ of 1% of the
(2)
capital furnished by the special partners.

Miscellaneous Licenses. Besides the regular business licenses above enumerated certain other transitory occupations were subjected to similar restrictions. Thus owners or occupants of fisheries were granted licenses for the sale of liquors and other commodities during the fishing
(3)
season (\$6.); a license was required for selling spirit-
(4)
uous liquors at horse races; and a similar provision was made for militia musters.

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- (1) Bryan, "History of State Banking in Maryland", p.54.
(2) Md. Laws, 1825, ch. 113, section 15.
(3) Md. Laws, 1825, ch. 110; 1825, ch. 214 (~~sec. 6~~); 1828, ch. 95.
(4) Idem., 1824, ch. 145; ch. 1828,^{ch} 95.

Issues of Licenses and Collection of the Tax. Under the system existing prior to 1818 the issue of licenses and the collection of the tax thereon were, with the exception of the marriage license, distinguished between two authorities, the judges or clerks of the county courts being vested with the authority of issue while the sheriffs were responsible for the collection of the tax and the payment of the proceeds into the treasury. This was the rule even in certain cases when^{ne} payment was first made to the clerk. As the sheriffs were local officers, not directly responsible to the state and frequently insolvent, this division of duty led to unnecessary confusion and loss. (1) This the license laws passed after 1818 endeavored to correct by providing usually that the clerks of the county court should receive and account for the tax as well as issue the licenses. (2) A similar provision was made to apply to the license taxes already in force and which had previously been collected by the sheriffs. (3) The exception made to this rule in three cases - the license taxes upon note brokers, auctioneers in Baltimore City, and dealers in lottery tickets - was due to peculiar circumstances of each, which rendered it advisable to place the administration of the law

(1) Proc. House of Delegates, 1816, p. 14.

(2) Md. Laws, 1824, ch. 148.

(3) Md. Laws, 1824, ch. 148.

more strictly under the control of the state executive. In their form and in their penalties for violations the several laws were quite similar. The term of every license was restricted to a year; lists of those to whom licenses were issued were forwarded to the sheriffs and grand jurors for the purpose of punishing violations; and in some cases the lists were published in the newspapers.

Corporation Taxes.

Banks. In 1835 a general extension of bank charters again took place, similar to that provided for in the Act (1) of 1813. On this occasion, likewise, the banks were required to pay for the privilege. The old tax of twenty cents per \$100. of capital stock was continued, and in addition a new tax was imposed - the familiarly known "bank (2) bonus". This bonus was a fixed sum assessed upon each bank, payable in three annual instalments, and was required from newly chartered banks as well as from those whose (3) charters were extended. The amount varied: for newly chartered banks it was 3 3/4 % upon their capitals; for the extension of the charters of county banks it was 1 1/2 % upon their capitals; for the banks of Baltimore City, whose charters were extended it was a lump assessment of \$75 000 upon all of them together. The adoption of this form of tax was the result of a pressing demand for revenue. The treasury was in distress at the time, and a large immediate return was considered more important than a permanent tax which in the long run would have been more productive.

In 1818 a special tax was imposed upon banks oper-

(1) With the exception of those which by act of 1821 had been extended to 1845.

(2) In a few cases Insurance Companies were subjected to the same taxes as those levied upon banks. Md. Laws, 1835, ch. 240. Idem. 1838, ch. 289.

(3) Various bank acts of sessions 1834, 1835 and 1836.



(1)

ating in Maryland without having obtained a state charter. The tax was a political measure, aimed at the Baltimore Branch of the United States bank, and was almost immediately declared unconstitutional by the Supreme Court of the United States in the case of McCulloch v. Maryland.

(2)

Baltimore and Washington Branch Railroad. The internal improvement enthusiasm of the years from 1825 to 1840 brought into being a score or more of large joint companies and gave the first opportunity for an extensive opportunity for an extensive application of a corporation tax. No attempt, however, was made to turn the opportunity to such an account. The policy of the Legislature was to encourage as far as possible all improvement undertakings, and, so far from burdening them, to relieve them of all unnecessary expense. The only exception made was in the case of the Baltimore and Washington Branch of the Baltimore and Ohio Railroad. Upon this road the heavy tax of one-fifth of the gross passenger receipts was imposed; but for what reasons this exception was made does not appear. The tax indeed was in the nature of an after-thought. The original

(4)

act authorizing the road made no reference to a tax of any

(1) Md. Laws, 1817, ch. 156.

(2) 4 Wheaton, 316.

(3) *Md. Laws*, 1832, ch. 175.

(4) Md. Laws, 1830, ch. 158. Supplement 1831, 330.

kind. It was only in a later revision of the act that the tax provision was inserted, in compensation apparently for the surrender by the state of certain privileges previously reserved. (1) In any case this example, although a most profitable one, had no influence in the chartering of other improvement companies.

Foreign Insurance Companies. The first extension of the corporation tax to a whole class of corporations, other than the banks, took place in 1840, when an act was passed subjecting foreign insurance companies - i.e., such as did not derive their charters from the state - to a tax of 2% upon the amount of premiums received by them from policies written within the state. (2) The agent was made personally liable for the tax, besides being required to deposit a large bond. In the interest of the public debt it was provided that any company could commute ^{its} ~~their~~ tax by investing \$75,000. in any of the loans of the state or of the city of Baltimore. The purpose of the act was only incidentally financial, although later it did become a fertile source of revenue; the main incentive to its passage was the desire to foster the home insurance companies.

(1) Maryland Laws, 1832, ch. 175.

(2) Maryland Laws, ~~ch. 24~~, 1839, ch. 24.

The Character of the Corporation Taxes. The annual tax of twenty cents upon each hundred dollars of banking capital first laid in 1813, was a true corporation tax. The charge known as a "bank bonus" was not strictly a corporation tax, but rather what has been called "a license fee charged for the privilege of incorporation or of increasing the capital stock of a company." (1) The early taxing of banks, however, was not used as a precedent for the taxing of other corporations. Banking for many years lay under its early odium. It was regarded as a necessary institution but as an unproductive one, whose profits were out of proportion to its services, which needed restraint rather than encouragement, and from which, therefore, a contribution could be exacted with peculiar justice. Until the second quarter of the century, indeed, other corporations were too unfrequent to command attention. And although a rapid extension of this form of industrial organization then took place, it was confined in its field almost entirely to a class of enterprises - canals, railroads, mining, etc., - which the state desired to foster. Thus up to 1840 at least there is little to indicate any recognition of the corporation as a pe-

(1) Seligman, Essays in Taxation, p.175.

culiar species of taxable property deserving of special treatment, although as it happened, most of the corporation charters granted were those in which the franchise and monopoly features were particularly evident. The tax upon the Baltimore and Washington Branch of the Baltimore and Ohio Railroad is a unique exception, but not an example. The only other corporations so far taxed - banks and foreign insurance companies - were so treated for reasons peculiar to those corporations. The fact that the objects of the tax were corporations was hardly an element in the imposition of the taxes.

Tax on Officers' Fees.

Following a custom long in use in Baltimore City the Legislature in 1824 imposed a tax upon the fees of certain
(1)
state officers, not, however, by a license tax upon such officers as was the case in Baltimore, but by a percentage tax upon the amount of fees received. Each official affected - clerks of the court of appeals, of the county court and of the city court of Baltimore, the Register in Chancery, and the Registers of Wills for the several counties - were required to keep and make return of a list of all fees received in his office, and, when the total receipts exceeded \$1500 to pay a tax of 25% upon the excess amount. There was no question of the justice of such tax,
(1) Md. Laws, 1823, ch. 146.

nor was the amount of the tax complained of by the officials concerned. The plan adopted, however, was, as a revenue measure difficult of operation, and as a remedial measure was ill-adapted to the end desired, tending as it did to perpetuate the system of fees. After being in operation for three years, with only very partial success,
(2)
the law was completely repealed.

STATE LOTTERIES AND LOTTERY TAXES.

The use of lotteries as convenient means of raising money or of disposing of property ran back into colonial days. Unrestricted freedom, however, led to abuse and fraud and the state at an early date took steps to reduce the evil by prohibiting the drawing of lotteries without first obtaining the sanction of the legislature, and by providing stringent regulations for the conduct of those
(3)
so authorized. The actual number of lotteries was, however, not noticeably reduced. Whenever a church needed new pews, or a village a fire engine, or a harbor improving, the first resort was almost invariably to a lottery. The

(1) Proceedings of House of Delegates, 1825, pp. 90-95. Report of Agent, 1824, p. 101. Ways and Means Committee Report.

(2) Maryland Laws, 1826, ch. 246.

(3) Maryland Laws, 1792, ch. 58.

purpose, however, was always of a public or charitable character. No lotteries were sanctioned for the personal profit of individuals. The people absorbed the various schemes greedily, and aggregate capital of the lotteries drawn yearly in Maryland was estimated as high as \$2,000.

(1)
000. Although this popular malady offered an easy and certain means of swelling the public revenue, no attempt was made to turn it to such a purpose until 1817. This hesitancy was due in part to the moral prejudices of a certain part of the community against the principle of the lottery, but in a much greater part to the excellent condition of the public finances prior to the close of the war of 1812. When the need came for more revenue moral prejudices were quieted by the arguments that it was useless for Maryland to attempt the suppression of lotteries as long as neighboring states permitted them and that a moral result would be better secured by legalizing them under proper regulations.

(2)
(3)

In 1818 after considerable discussion, the legislature authorized the establishment of state lotteries to be

(1) Proc. House of Delegates, 1825, pp. 109-111, Niles' Register, Feb. 18, 1826.

(2) Proc. of House of Delegates, 1823, p. 48, 1824, p. 101

(3) Maryland Laws, 1817, ch. 154.

conducted by salaried commissioners for the benefit of the public treasury. Private schemes already authorized were subjected to a tax of 5% upon the gross amount of prizes drawn, and thereafter private grants were rarely made. The yield of the new state lotteries was greatly restricted by the existence of several large private lotteries, especially those granted for the benefit of the University of Maryland and the Washington Monument in Baltimore. These two (1) the state now bought up, in the first instance, by agreeing to pay to the directors of the monument all the yearly receipts from the state lotteries in excess of \$12 000 until (2) the monument should be completed; and, in the second instance, by paying the University \$5 000 per year from the unappropriated avails of the state lotteries to the amount of the unexhausted privilege of the University lottery - (3) some \$41,000.

By an act of 1822 dealers in lottery tickets were (4) required to take out licences, and no tickets were authorized to be sold except those issued by lotteries specifically sanctioned by the Maryland Legislature. The na- (5)

(1) Proceedings, House of Delegates, 1826, p. 480.

(2) Md. Laws, 1824, ch. 125. (3) Md. Laws, 1827, ch. 198.

(4) Md. Laws, 1821, ch. 232. The amount of the charge was changed frequently, but was usually \$200 for Baltimore city and \$50 elsewhere in the state. (5) Md. Laws, 1819, ch. 163.

ture and the high profits of the business, however, made it very difficult to enforce this and other laws prohibiting the circulation in Maryland of lottery tickets issued by other states. (1) In 1832 the license system was radically altered. The Commissioners of lotteries were authorized to grant licenses to sell tickets in its own lottery system or in those of other states upon the following conditions: first, that the licensee should pay \$250 for each license taken out by him, the minimum amount to be not less than \$5000, and, second, that he should contract with the commissioner to draw a scheme of lotteries to produce \$15,000 (2) for the use of the state.

The growing sentiment against the lottery system as an institution led, in 1836, to the adoption of a constitutional amendment, prohibiting the sanctioning by the legislature of lotteries or of the dealing in lottery tickets after the expiration of the existing grants. (3) Another amendment of four years later directed that the above prohibition should take effect immediately. (4) Thereafter no more state lotteries were drawn, and the granting of new private lotteries could be effected only by the process of

(1) Public Documents, 1834. Report of Committee on Lotteries. Md. Laws, 1846, ch. 109.

(2) Md. Laws, 1834, ch. 79. (3) Md. Laws, 1834, ch. 219. Confirmed, 1835, ch. 9.

(4) Idem, 1839, ch. 31. Confirmed. 1840, ch. 261. (5) Idem, 1841 (Dec.) ch. 330.

(1)
further amending the Constitution.

The private lottery system, however, could not be abolished immediately. Many existing grants had a considerable time yet to run, and could not legally be revoked. But in order to hasten the termination of these, the Legislature provided that the existing grants should be transferred by the beneficiaries to the state commissioners, and be drawn under their supervision, until the sums authorized by the several grants should be raised. These were known as the "consolidated lotteries". The commissioners were authorized to contract with other persons for the drawing of such lotteries, and to issue licenses to the contractors for the sale of tickets therein at the rate of \$250 per

(2)
(3)
license.

(1) Maryland Laws, 1845, ch. 200; 1846, ch. 242; 1847, ch. 98.

(2) Maryland Laws, 1835, ch. 205.

(3) Idem., 1842, ch. 50; 1842, ch. 260; 1846, ch. 118.

EXTRAORDINARY REVENUE.

The receipt of extraordinary revenue continued to be a prominent feature of the state's finances, of such prominence, indeed, as to almost equal in importance the receipts from the regular revenue sources. The occasions of this extraordinary revenue were two: the payment of the war claims by the United States Government, and the distribution of the United States surplus revenue. The former of these was not altogether unexpected, and its receipt to some extent had been discounted; the latter was purely gratuitous.

The War Claims.

The War claims represented the demand of Maryland and other states for reimbursement out of the national treasury for the military expenditures made by them during the War of 1812. These expenditures had been made in unequal proportions by the several states, and, as the advantage thereof was a common one, it was only reasonable that the burdens should be equalised by a plan analogous to the assumption of the states' debts in 1790. The principle of reimbursement had been recognized by the United States Gov-



ernment at the time of the war, but the final adjustment of the various claims was not effected until some years later. The adjustment of Maryland's account was particularly difficult. In the excitement of war, when even at times the state records had to be removed from place to place on the incursion of British troops, there had been lost many valuable papers and vouchers necessary to the proper presentation of a claim. (1) As a result the total of Maryland's claims finally admitted and paid by the United States amounted to only \$239,626.54, considerably less than the actual cost of the war to the state. (2) This money was received in instalments between 1819 and 1823, before the new taxes had become effective, and the whole sum was used for the current expenses of the treasury. (3) The above amount was intended to represent simply the actual expenditure of Maryland. In addition the state demanded interest between the time of the original advance and the time of repayment. This, too, was later acknowledged and paid by the United States. The money received on this occasion was appropriated to the service of the public school system.

(1) Proceedings of House of Delegates, 1822, p. 45.

(2) Idem. 1819, p. 107, places cost of War at \$474,516.

(3) Idem. 1819, pp. 121-123.

United States Surplus Revenue.

In 1837 congress provided for the distribution among the several states of the accumulated surplus in the United States Treasury. This surplus was due to the unexpected increase in the receipts from public land sales, and its distribution the hybrid result of a long controversy over the tariff and land policies of the government. The Distribution act provided for the division of \$37,000.000 among the states in proportion to their representations in Congress; but, owing to the financial embarrassment of the government before all the instalments had been paid, only some \$28,000.000 was so divided. In order to obviate constitutional objections the quota assigned each state was not in the form of a gift but was deposited ostensibly as a loan subject to the recall of the Secretary of the Treasury. Every one understood, however, that the several assignments would never be called for. Maryland gave the re-⁽¹⁾quired certificates of obligation for repayment on demand, and received as its quota the very considerable sum of \$955,338.25. somewhat less than a third of this money was immediately used to meet the current deficit of the treas-

(1) Maryland Laws, 1836, ch. 1.

~~(2) - Maryland Laws, - 1836, - ch. - 220.~~

ury. The residue (\$681,387.25) was deposited in selected banks, and the interest thereon pledged to the service of the public school fund. (1)

GROWTH OF EXPENDITURE.

Succeeding the War of 1812 there was a marked increase in the ordinary expenditure, due, partly to the assumption of new duties by the state, but in greater degree to the more prodigal handling of the public monies. A portion of the apparent increase, however, was merely a matter of book keeping and did not entail a corresponding burden upon the treasury. Thus the expense incurred by the state in undertaking to complete the Washington Monument in Baltimore City was in return for the surrender of the lottery privileges previously granted to the Monument directors. (2) And of precisely similar character was the annual donation of \$5000. to the University of Maryland from 1829 to 1837. In both these cases the state finances were compensated by the increased field obtained for its own lottery system. Of analogous character was the annual appropriation of \$20,000 to Baltimore City for the improvement of its har-

(1) Maryland Laws, 1836, ch. 220.

(2) Maryland Laws, 1824, ch. 125; 1826, ch. 245.

bor, this being paid out of the revenue from the Auction Receipts Tax. The grant was in palliation for the forcible diversion of that tax from the city to the state treasury, and was discontinued upon the first opportunity. This opportunity was offered in 1834. The failure of the Bank of Maryland in that year, under somewhat odious circumstances, occasioned riots and the destruction of much private property. The sufferers were indemnified by the Legislature by an issue of state stock; and on the plea of the city's responsibility for the damage done, the harbor appropriation was discontinued and utilized as a redemption fund for the (1) Indemnity Stock now issued. The fund was sufficient to redeem the stock within five years, but it was not until 1853 (2) that the appropriation to the city was resumed.

Expenses of Government.

The cost of the administrative department underwent little but quantitative change, the addition of several minor officers being balanced by the abolition of the offices of (3) (4) auditor and of trustee: Salaries, with the exception of

(1) Md. Laws, 1835, ch. 184; 1835, ch. 226.

(2) Hollander, Financial History of Baltimore, pp.157,158.

(3) Md. Laws, 1827, ch. 188; 1828, ch. 74.

(4) Idem., 1837, ch. 131.

the governor's which was increased to \$4200, remained nearly stationary. Salaries were indeed of relatively little importance. The number of public officials was small, and whenever possible these were remunerated by fees. This latter method of remuneration led to grave abuse. Many officials received disproportionate incomes, and in some cases employed others to do the work of their offices. (1)

The half-hearted effort to correct this evil by imposing a tax upon "officers' fees" was, as has been noted, without result. The state judicial system remained as reconstructed by the act of 1806; the only salary change being an increase of \$300 in that paid the Chief Judge of the Court of Appeals. The expenses of the Legislature, however, showed a marked movement upwards, owing partly to the lengthening of the annual sessions, but in greater part to the growing extravagance of that body in the passage of private appropriation bills. Most of these were of no permanent importance, and in the published reports were seldom distinguished but simply lumped under the general label of "miscellaneous".

(1) Public Documents, 1836. Report of Committee on Retrenchment.

Colonization of Free Negroes.

During this period the Legislature engaged the state in two new enterprises - the colonization of free negroes, and the establishment of a state system of tobacco inspection. Of those already undertaken the Penitentiary was the only one of importance.

The rapid increase in the number of free negroes during the first quarter of the century offered serious menace to the interests of slavenholders and to some extent to the peace and order of the community. Numerous measures of varying stringency, were proposed in remedy, the one most favored being that of African Colonization. State aid was invoked, and in 1826 an annual appropriation of \$1000
(1)
to the American Colonization Society was authorized, but negged with such restrictions that the society took advantage of it for only three years. In 1831 the Legislature, with the spectre of the Southampton insurrection as chief abettor, determined upon a policy of colonization upon the
(2)
state's own resources, but in collaboration with the Maryland Colonization Society. A Board of Managers was appointed to provide for the voluntary removal of all negroes then free, and for the forcible deportation of those thereafter

(1) Md. Laws, 1826, ch. 172. Repealed 1832, ch. 314.

(2) Md. Laws, 1831, ch. 281.

manumitted. The sheriffs and county clerks were to supply the board with lists of freed slaves, but the board itself was to make all necessary arrangements for shipping accommodation and for places of settlement in Liberia, and it was given authority to draw upon the treasurer to the full amount of the annual appropriation for this purpose.

An appropriation of \$20 000 was made for the expenses of the first year, and for future expenses the treasurer was authorized to issue and sell \$200 000 in 5 % state stock. To secure the interest and principal of this loan an annual assessment of \$10,116.24 was laid upon the counties, to be levied and collected in a manner similar to (1) that used in imposing the county assessments of 1821-26. The permission to issue bonds was never availed of by the treasurer, but the county assessments were regularly required and an annual appropriation of \$10 000. continued to (2) be made up to the eve of the Civil War. The whole scheme, however, was an unqualified failure. Compulsory emigration was seldom, if ever, enforced, and on account of the general unwillingness of freed negroes to leave of their own accord, the number of emigrants made no impression upon the

(1) A small revenue was also derived after 1834 from a tax levied upon slaves brought into the state by persons already citizens or intending to become citizens of Maryland. No other persons were allowed to bring in slaves. The tax ~~was~~ ^{was} ~~lean~~ \$15 for slaves between twelve and forty-five years old and \$5 for others. The proceeds of this tax was paid to the

population of such negroes. These increased from 52,000 in
(1)
1831 to 90 000 in 1860. The expense per emigrant was very
(2)
large, averaging nearly \$1000,

Tobacco Inspection Warehouses.

The importance of the tobacco industry in Maryland
early rendered it necessary for the interest of the trade
that the character of tobacco exported should be subject to
public inspection. Up to 1824 this inspection was of a
semi-private character, under the direction of the Levy
courts of the counties, the cost being defrayed by the fees
(3)
received for the service. The inspectors were appointed
by the governor, but the state government assumed no re-
sponsibility and received no revenue. But the growing im-
portance of the trade, and of Baltimore City as the princi-
pal point of shipment, rendered it desirable that the state
should assume direct management of the inspection system
(4) (5)
within that city. This was done by an act of 1824, which

Maryland Colonization Society.

(2) Act expired 1851, but continued by 1852, ch. 202.

(1) On the social aspects of the subject see Brackett. The
Negro in Maryland. (2) Com. on Colonization, 1840 (Pub. Docs.).

(3) Maryland Laws, 1801 (Nov. ch. 63.)

(4) Proceedings of House of Delegates, 1823, p. 48.

(5) Maryland Laws, 1823, ch. 165.

provided for rented houses. But it was soon found that it
(1)
would be cheaper to own them. Wharf property was acquired,
(2)
buildings constructed, and suitable machinery provided,
and from time to time additions were made to accommodate
the increasing business. The initial cost of the property
and buildings, as well as that of most of the later addi-
(3)
tions, was met by the issue of state stock. The interest
and principal of these loans, however, as also the current
expenses of management, were provided for by the fees
charged for inspection. No attempt, however, was made to
render the inspection service a source of actual profit to
(4)
the treasury.

State Penitentiary.

Although the penitentiary in its primary use as a
prison, was a notable advance upon the system of county
jails, it disappointed the hopes of its founders. Neither
as a reformatory of morals nor as a profitable financial

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- (1) Proceedings of House of Delegates, 1825, p. 185.
(2) Maryland Laws, 1825, ch. 159.
(3) " " 1826, ch. 252. Loan of \$48 000. Idem.
1835, ch. 350. Loan of \$30 000. The total loans negotiated
for this purpose up to 1848 was \$166 000.
(4) Proceedings of House of Delegates, 1824, p. 101.

(1)

investment was it a success, owing apparently to inefficiency in its management and to a too liberal use of the governor's power of pardoning. Investigating committees of the Legislature were severe in their indictments, one declaring that it was nothing more than a grossly mismanaged manufacturing institution in which the workers happened to

(2)

be criminals. The Penitentiary was not self-supporting. In only very few years did the current receipts equal or exceed the current expenditures. Over most of the period an annual donation from the treasury was necessary, and at periodic intervals the state was called upon to pay large sums for the discharge of floating indebtedness incurred

(3)

by the Directors, or for repairs and additions to the buildings. On four occasions between 1821 and 1837 state loans were authorized for these purposes, amounting in the whole to \$97,947.30. The Penitentiary directors were re-

(4)

quired to pay to the treasurer each year out of their net profits a sum sufficient to meet the annual interest upon these loans and to form sinking funds for their redemption. This was done at times, but as net profits were of infrequent occurrence the burden fell upon the state treasury.

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- (1) Niles' Register, Vol. 21 (1821) p. 178; vol. 19, p. 432; vol. 22, p. 66
(2) Proc. House of Delegates, 1823, pp. 57-61.
(3) " " " 1820, p. 85.
(4) Md. Laws, 1821, ch. 150; 1826, ch. 229; 1834, ch. 308; 1836, ch. 300.

THE PUBLIC SCHOOLS AND THE SCHOOL FUND.

Although free primary education had been much discussed and much desired ever since the founding of Maryland , and with even greater earnestness since the establishment of democratic independence, it was not until 1814 that the state government offered any important encouragement to this cause. So far as there existed any public school system prior to that time it was in development of an act of the Colonial Assembly passed in 1723. ⁽¹⁾ Under that act a board of school directors had been appointed for each county to make the necessary arrangements for a school building and an instructor. As, however, little or no provision had been made for the accumulation of a suitable fund for the purpose, the act was almost fruitless. In only one county was sufficient money raised to found a serviceable school; in the others the school boards continued in existence, but without sufficient funds to establish satisfactory schools. No improvement was effected up to the time of the Revolution and after that event the several county foundations were converted one after the other, and with legislative sanction, into private academies, offering

(1) Md. Laws, 1723. cf. Steiner, "Education in Maryland," p. 43, et seq.

a secondary grade of education. In this change the Kent county school was developed into Washington College, and the Anne Arundell county school into St. John's College; to both of which institutions the Legislature, in 1785, granted annual donations of considerable amounts. (1) Toward the end of the century, however, the opinion gained ground that secondary education was a more proper object of state aid than was collegiate education. The donations to the (2) two colleges were discontinued, and thereafter the appropriations for school purposes were divided among a number of academies and colleges. These institutions were, however, neither elementary for free. The growing demand for a school system embodying both of these features resulted in 1813, in the dedication of the bank tax then levied to (3) the service of free elementary education.

Three years later provision was made for the appli- (4) cation of the fund accruing from the bank tax. A board of school commissioners was appointed for each county with power to draw upon the treasurer for the county's share of the tax proceeds and with full discretionary authority as

(1) Md. Laws, 1784, ch. 7 and ch. 37.

(2) Md. Laws, 1805, ch. 85.

(3) See Supra. p. 45.

(4) Md. Laws, 1816, ch. 256. Frederick, Washington, and Alleghany counties were excepted; the portions due these new and undeveloped counties being allowed to accumulate to their credits.

to its method of application. The act was without result, primarily because the product of the bank tax was wholly inadequate for the purpose intended; and, although certain counties were given authority to supplement the aid from the state by the levy of special taxes, the privilege was availed of in few, if any, cases. In 1826 a more comprehensive system was devised, moulded upon the apparently simple
(1)
Lancastrian theory of education. This provided for the creation of the office of state superintendent of Public Instruction with general supervisory power over the schools to be founded; for the appointment of local commissioners and inspectors; for the division of each county into school districts of a fixed size; and for the distribution of the county's share of the state school fund among the several districts in proportion to the number of school children. Such further money as should be necessary for the construction of buildings, etc., was to be raised by the people of each district by special taxation or otherwise. Baltimore City was permitted to establish its own system of schools, distinct from that of the state, and the share of the school fund previously allotted to Baltimore county was thereafter

(1) Md. Laws, 1825, 162.

(1)

divided equally between city and county. The effectiveness of the new plan was greatly diminished by the provision that it should not be operative in any county until accepted by the majority vote of the people thereof. The counties were slow to accept the offer, and even in those counties where it was adopted, radical changes were made to meet local demands. The total effect of all this legislation was very disappointing. With the exception of Baltimore city, the school system of the state was almost worthless. The Governor's message of 1856 declared that education in Maryland, outside of Baltimore City, was "in a state of most utter and hopeless prostration."

The proceeds of the bank tax was treated by the treasurer as a separate account under the name of the "Free School Fund", and, when not immediately used, was invested

(2)

in the shares of specified banks. The fund was subject of course to the order of the school authorities of the counties, but the yearly increment was so small that in many cases the counties preferred to let their portions accumu-

(1) Hollander, Financial History of Baltimore, p. 128.

(2) For awhile three separate funds were carried,- the Free School Fund, the County School Fund and the Common School Fund; the latter two were unimportant.

late at interest in the hands of the treasurer. This tax on the banks was the only regular revenue granted to the schools, but on two occasions the school funds were greatly increased by lump appropriations. There were, as already noted, the interest received from the war claims and the major portion of the money received from the distribution of the United States Surplus Revenue in 1837.

The "county rights" theory of government was never carried to more extreme lengths than in the distribution of the School Fund. Without respect to population or to local needs the proceeds of the bank tax were divided in equal proportions among the several counties; and, with similar logic, the donations to academies and colleges, which had at first been made with some approach to merit, were in 1825 ordered to be so changed that each county might share equally in this bounty. Notwithstanding the opposition of the larger counties the School fund continued to be distributed upon this principle. But in the case of the two special appropriations the system was so far modified as to allow one-half of these sums to be distributed according to the number of white children of school age, the other half continuing to be divided equally among the counties.

(1) Report of Treasurer on Education, (Pub.Docs.) 1842.
 (2) Maryland Laws, 1837, ch. 285.

CHAPTER IV. INTERNAL IMPROVEMENTS AND THE STATE DEBT.

The year 1826 may be conveniently taken as marking the beginning of the Internal Improvement Era in Maryland. Prior to that time there had been much earnest discussion of internal improvements, several undertakings had been launched, and some small results had been achieved; but so far such attempts had been strictly subordinated to other interests. At the very time when the spirit of internal improvement was most abroad in the other states, that is, in the years immediately succeeding the second English War, the violent political discussions in Maryland had prevented a rational consideration of the subject as a broad question of public policy. (1) As a result, the Erie canal had been completed by the state of New York and several other states were busily at work digging canals and building roads, before Maryland had determined upon the attitude which the state government should assume toward such projects. (2) The step once taken, however, could not be retraced, and for twenty years internal improvement was the dominating factor in the financial legislation of the state.

(1) Proceedings of House of Delegates, 1822, p. 45.

(2) Niles' Register, Vol. 24 (1823), p. 235.

The movement in Maryland, as elsewhere, was the resultant of many causes, partly speculative, partly psychological, but in the main wholly rational. In their few years of independence the United States had prospered beyond all precedent. It seemed that nothing could ultimately fail, that a special Providence was in charge of all things American. Each new generation saw the population more than doubled; each year saw the limits of civilization pushed farther and farther westward, into a land seemingly of inexhaustible wealth. Every line of business shared in this prosperity - agriculture, manufactures and commerce. But it was early and clearly seen that this great political and industrial growth would meet with a sudden check, unless there was a proportionate development of means of interior communication. Thus arose the demand for internal improvements.

Two distinct motives were involved in this demand for quicker and cheaper means of communication. In the first place, there was a large and rapidly growing section of the country - the interior region generally - isolated by nature, where development was absolutely dependent upon the construction of artificial outlets to the coast markets. Thus the mineral products of the Alleghanies would be of

little service so long as the cost of carriage should many times exceed the value of the original product. In the second place, regions well situated for commercial centres desired improved transportation facilities to and from the interior in order that their markets might be widened and their trade increased. The Erie Canal, for instance, was the making of New York City.

Nature placed Maryland in this latter category. The land area of the state was small - barely 9000 square miles - the water area so well distributed that for the major part of the state the transportation needs of the people were well supplied by this wonderful system of natural waterways, especially if supplemented by a good system of local roads. The western section, it is true, was isolated, and the development of its resources required some form of artificial transportation to the coast. But with this exception the effective demand for internal improvements in Maryland sprang from a desire to make the state commercially prosperous, to make Maryland the channel through which might flow the trade of the surrounding country and of the West.

(1)

This western trade was the great prize to be contended for.

(1) Proceedings of House of Delegates, 1827, p.269 et.seq.

The produce of that great region could in part be floated down the Mississippi River, but for imports it was dependent upon the costly wagon ways across the Alleghanies. The introduction of the steamboat upon the Mississippi threatened even this traffic; but in internal improvements the Atlantic states thought they saw a means of redress. The geographical relation of most of these states to the west was not dissimilar. The trade would, therefore be captured, and probably permanently, by whichever one of them should be able first to offer the easiest and cheapest transportation from the interior to the coast.

Thus the demand for internal improvements was real and rational, and in the days before the railroad its logical expression was in the form of roads, canals, and improved river courses. But such undertakings were costly; the question of their financeering became an important one. Numerous private attempts had failed, or at most had met with only very partial success. Private capital indeed was either insufficient or unwilling to venture upon the bolder projects. The National Government was looked to for aid, but Congress, after having authorized the great Cumberland Road, entered upon a prolonged discussion of the constitu-

(1) Report of Committee of Senate on Trade of Maryland, 1833.

tionality of such action, which while keeping the friends of the American system in suspense, gave them but little practical encouragement. The responsibility seemed to have been thrown upon the shoulders of the individual commonwealths.

That Maryland delayed so long to use the power and credit of the state for this purpose was due, as noted, largely to political dissensions. (1) But back of these political dissensions and the cause thereof, lay important economic differences. The division of the state by the Chesapeake Bay into two distinct sections early bred a feeling of distrust between the dwellers on the eastern and those on the western shore. Later a similar distinction and distrust developed between the northern and southern counties. This was partly the result of Maryland's being essentially a border state, the southern and eastern - the tidewater - counties allied in soil and economic conditions with the South, the northern and western counties identified in general characteristics with the North. But more important than this as a breeder of sectional animos-

(1) Proceedings of House of Delegates, 1820, p.28, et seq. "Maryland has been wasting her energies, and destroying her best interests by domestic feuds and political struggles."

ity was the gradual shifting of the economic centre of the state from the southern to the northern counties, which was definitely realized in the first quarter of the last century. This was particularly exemplified in the increasing dominance of our city - Baltimore. Favored with an excellent harbor and a central position this city thrived wonderfully. The western trade, coming across the National Turnpike to Cumberland, found its easiest outlet at Baltimore, which was also the normal point of transshipment for the important trade down the valley of the Susquehanna. Moreover, in the sudden development of manufacturing during the war period, the hilly region around Baltimore had offered such excellent water power that the bulk of the factories tended to centralize in this neighborhood. Outside of Baltimore the most noticeable development was in the (1) counties north and west. This was due to the excellent soil of certain sections, the adapt bility of others to the location of factories and mills, and the mineral wealth of the Allegany region only beginning to be developed.

In contrast to this stood conditions in the southern part of the state. The Eastern'Shore was barely able to

(1) Majority report of Committee on Internal Improvement, 1832. (Public Documents).

hold its own from 1800 to 1825; and the lower Western Shore was beginning to suffer from the effects of the long exploitation of its soil by successive plantings of tobacco. The distress here was at times so acute that lands were being deserted and the emigration of the younger generation caused an actual decrease in the population of certain sections.
(1)

The existence of economic differences bred local jealousies.
(2) The people occupied themselves with politics. The Legislature had little time to spare for the consideration of industrial matters. It was only upon the passing of the Federalist party about 1820 that a political peace was temporarily effected. Local jealousies, however, still existed and formed a stumbling-block in the way of improvement agitation. The advantages of internal improvements, if constructed by private means, was generally acknowledged, although even here state jealousy sometimes entered; the fear that Virginia and the District of Columbia would profit too much from a Potomac canal led the Maryland legislature on two occasions to refuse even its sanction to that undertaking. But that the state treasury should become involved, with the consequent possibility of direct

(1) Report of Committee on Finances and Internal Improvement, 1835. (Public Documents).

(2) Governor's Message, 1829.

taxation, was an entirely different proposition. This policy of state aid, which later led Maryland to the verge of repudiation was by no means a spontaneous movement, the product of a mad fever of universal contagion, such as it has sometimes been depicted. So far from being so it was only by the most strenuous efforts and after a long campaign that the friends of the policy were able to persuade a majority of the counties to their way of thinking. The first bill making a large appropriation to Internal Improve
(1)
ments passed the House of Delegates by the close vote of 35 to 34, and the passage of similar bills later was in
(2)
like manner closely contested. This opposition was based largely on local jealousies, was often irrational, but of its existence there is no question. And notwithstanding the rosy colors in which the various proposals were painted, the possibility of their failure was by no means overlooked.

The centre of the enthusiasm was in the section bordering upon the Potomac River. Every village along that river saw in a Western canal the means of its becoming a metropolis. The attitude of Baltimore toward the whole movement was for a time unsettled. The majority of opinion

(1) Md. Laws, 1825, ch. 180.

(2) Proceedings of House of Delegates, p. 384 and pp. 415-420.

at first seemed to incline toward a canal up the Susquehanna, fearing a Potomac canal would unduly benefit its rival cities of Maryland and the District of Columbia. (1) The assent of Baltimore to the Chesapeake and Ohio project was finally won, but then only half-heartedly, by the promise of a lateral connection from the Potomac to the Patapsco. The Eastern Shore almost unanimously opposed the whole movement. With the exception of the Delaware and Chesapeake Canal, which was distinctly planned for the benefit of through traffic, there was little possibility, or indeed demand for, internal improvements in this section. Any indirect advantage it might derive from extensive works on the Western Shore was overborne by the fear of direct taxation being necessary and by the feeling of jealous distrust which was the heritage of the Eastern toward the Western Shore.

Granting, however, the value of internal improvements to the state and the wisdom of the policy of state aid, the choice of improvements to be aided did not admit, at first, of much dispute. Indeed the topography of the state pointed out so clearly the direction which such im-

(1) Niles' Register, Vol. 25, (1823-24) p. 145. Baltimore American, 1825, Feb. 7.

provements should follow that the broad outline of all future development was laid within a few years of the Revolution's close. This outline consisted of a three-pronged system of waterways radiating from the Chesapeake Bay as a centre:- eastward, across the Delaware Peninsula; northward, up the valley of the Susquehanna, westward with the course of the Potomac. The early history of the attempts to carry out these improvements is of little importance in itself, but a brief review may serve to place later developments in a clearer light:

(1) The Delaware and Chesapeake Canal. This was among the earliest of such projects to be proposed in the country, forming a favorite topic of discussion even in colonial days. Three states - Pennsylvania, Delaware and Maryland - expected much from the commercial effects of such a connecting link between the Chesapeake and Delaware Bays, while the National Government favored it for its supposed strategic value in times of war. After many futile beginnings actual work was begun in 1824, ⁽¹⁾ the state of Maryland having subscribed \$50 000 to the stock of the company

(1) Niles' Register, Vol. 26 (1824) p.180.

formed for the purpose. The canal was opened for traffic in 1829 and developed a considerable local business, but as it only accommodated boats of a shallow draft it never became a commercial thoroughfare as had been anticipated.

(2) The Susquehanna River. Internal Improvements had their beginning in Maryland with the incorporation of the "Proprietors of the Susquehanna Canal" in 1784. The Susquehanna River was navigable for small craft well into the State of Pennsylvania, except for a stretch of some ten miles below the Pennsylvania line. This obstacle the company proposed to overcome by building a canal around the unnavigable portion of the river, from Love Island to tide-water. Work progressed very slowly. The company got into financial difficulties, and in 1800 the state came to its aid with a loan of \$30,000. Ultimately the ten mile canal was completed, and some minor improvements were made to the river bed, but the trade value of these enterprises was very slight.

(1) Maryland Laws, 1783, ch. 23.

(2) Proceedings of House of Delegates, 1819, p. 63.

(3) Maryland Laws, 1799, ch. 17.

(1)

(3) The Potomac River. Long meditated plans for rendering the Potomac River a navigable waterway culminated in 1784-5, when the "Potomac Company" was chartered by the states of Virginia and Maryland. (2) This company proposed to clear the channel of the Potomac River for navigation as far as Cumberland, building canals where necessary around obstructions due to falls and rapids. The history of the company is one of failure, notwithstanding the performance of some rather remarkable engineering feats and the actual opening of a considerable portion of the river. In 1819 it gave up the struggle after having expended more than \$700,000 and accumulated a debt of \$170,000. The enterprise had been launched almost entirely as a private venture, the state of Maryland subscribing originally only \$5,000. But in various times of financial embarrassment (3) the state had made further subscriptions, until in 1820 its total holdings of stock amounted to \$120,444.44 in addition to a loan of \$30 000 advanced the company in 1814. (4) With the exception of a small dividend of \$457 in 1812 the

(1) For the detailed account of the early history of the attempts to build a canal up the Potomac River, see Ward's "The Early Development of the Chesapeake and Ohio Canal Project".

(2) Md. Laws, 1784, ch. 33.

(3) Idem., 1795, ch. 51.

(4) Maryland Laws, 1812, Resolution 6; 1813. Resolution 8; 1818, Resolution 29; 1819, Resolution 11; 1822, Resolution 43.

state had received no return whatever upon these investments.

With the exposure of the Potomac Company's affairs in 1819 all hope was abandoned of making the Potomac River navigable, and attention turned to another scheme - the building of a continuous canal parallel to the river. By the first proposition this was merely to extend from tide-water - i.e., Georgetown - to Cumberland, which it was estimated, could be done for \$1,574,954. Virginia immediately incorporated the Potomac Canal Company to carry out this plan, but the Maryland Legislature refused its confirmation. The only apparent reason for this action was the jealous fear that the District of Columbia would benefit unduly from a canal terminating at Georgetown.

Meanwhile events were shaping for a bolder enterprise. The idea of a continuous canal from the Chesapeake Bay to the Ohio River - a canal which would enable the products of the great West to come to the ocean without unloading - had been broached some years before. But the expense of such an undertaking daunted its advocates and up to 1823 there seemed little likelihood of aid from the National government. The internal improvement party had dom-

inated Congress for a term of years but so far a strict construction president had prevented action. In the fall of 1823 matters changed. President Monroe cast aside his constitutional scruples and it appeared reasonably certain that the Chesapeake and Ohio project, if properly presented, would receive National sanction and aid. At a convention of the friends of the canal it was estimated that the eastern section, from Georgetown to the coal banks above Cumberlandland could be constructed for \$2,750,000. Virginia responded immediately, Jan. 27, 1824 by incorporating a company on the lines laid down by the convention. A year later the Maryland Legislature confirmed the act, but with the express reservation of the right to construct a lateral canal from the District of Columbia to Baltimore City. ⁽¹⁾ No subscription was authorized by this act to the stock of the new company.

Thus up to 1825 the State of Maryland had expended in various schemes of internal improvement nearly a half million dollars. This was a very considerable sum at the time, but the expenditure had been spread over a number of years, and, what was more important, this money had been drawn entirely from current revenues. No debt had as yet been incurred.

(1) Md. Laws, 1824, ch.79 (Jan.15, 1825).

INTERNAL IMPROVEMENT LOANS. (1826-1840)

(1)

The act of March 6, 1826, making conditional appropriations of \$1,700 000. to various improvement undertakings, definitely accepted the policy of state aid to internal improvements and also gave the first sanction to the use of the public credit for this purpose. To render the act easier of passage the aid offered was ^{so} distributed as to placate as far as possible all sections of the state. The sum of \$500,000 was subscribed to the Chesapeake and Ohio

(2)

Canal Company; \$500,000. was pledged to construct a connecting canal from Washington to Baltimore, when such should be declared feasible and a company duly organized; a similar sum was promised to any company that might be formed to build a canal from Baltimore to Yorkhaven, Pennsylvania; and, finally, \$200,000. was pledged for the improvement of rivers and lowlands on the Eastern Shore. To raise the money thus appropriated the treasurer was directed to negotiate a 5% loan redeemable after 1860. Of these four authorized appropriations only the first was ever

(3)

made. The projects of lateral canals from Baltimore to the Potomac River and from Baltimore to Yorkhaven were tem-

(1) Md. Laws, 1825, ch. 180.

(2) The certificates of stock and debt of the old Potomac Company held by the state, were also subscribed for stock in the new company.

(3) Md. Laws, 1827, ch. 104.

porarily dropped, and the indefinite plan of bettering the Eastern Shore navigation was never carried beyond the surveyor's chart, if indeed it was ever intended to be carried farther. The Chesapeake and Ohio Canal itself languished for a time; and when finally begun in 1828, the whole complexion of the movement had been changed.

The report of General Bernard in 1826, with its estimate of over \$22,000 000. for a Chesapeake and Ohio canal, added to the cost and uncertainty of a Baltimore connection, quenched what little hope the people of that city had ever had in this vast project. Still anxious, however, to save the valuable trade of the West, they sought a substitute, and found it in a newly invented form of transportation - the railroad. A company was formed to construct such a road westward from Baltimore, with the aim of ultimately reaching the Ohio River. A charter was readily obtained, and, upon an appeal to the state for aid, the Legislature subscribed \$500,000. to the stock of the Baltimore and Ohio Railroad Company, at the same time revising the similar appropriation to the Chesapeake and Ohio Canal Company so as to bring both these grants under the same con-

(1) Report of Baltimore and Ohio Railroad, 1830. (Public Documents).

(2) Proc. House of Delegates, 1827, p.269 et seq.

(3) Md. Laws, 1826, ch. 123.

(1)

ditions. These conditions exacted that the two works should follow certain prescribed routes, later much changed; that each company should have bona fide subscriptions of certain amounts precedent to the state's subscriptions; and finally, that each company should agree, if requested, to accept 5% bonds, irredeemable for 15 years, in payment of the state's subscriptions. These conditions were complied with, and on the same day, July 4, 1828, both works were formally begun.

The aims of these two undertakings were almost identical; their lines of construction almost parallel. That the two were by their nature destined to be rivals was not overlooked by certain of their projectors, and mutual antagonism was at times acute. But the essential character of the rivalry was not generally grasped. Canal transportation had the support of long precedent and the steamboat was an assured success; the railroad, on the other hand, was an experiment. There was a prevalent belief that the two undertakings had different fields of work; that the canal was adapted to the carrying of the bulky mineral and

(2)

agricultural products of the Allegany region, while the

(1) Maryland Laws, 1827, ch. 104 and ch. 105.

(2) Report of Committee on Internal Improvements. 1830.

(Public Documents). *Letter of Chesapeake and Ohio Co. to Governor. 1842*

railroad would find its field of usefulness in the transport of lighter and more perishable goods. It was the existence of this belief in the restricted field of the railroad, together with the necessity of compromise on the part of both lobbies in order to present a united front, that caused the legislative treatment of the two companies to be more or less impartial.

The construction of the Railroad proceeded rapidly. By April 1, 1832 it was in operation as far as the Point of Rocks on the Potomac River, sixty-nine miles from Baltimore. (1) From the very first the new road proved an economic success, developing the country through which it passed and being offered many times the freight it was able to handle. The canal company, with its more cumbrous organization, moved more slowly, although all might have been well had not its overcaution and jealousy of the railroad caused it to take a fatal step. The natural passage-way to the West for both canal and railroad lay along the valley of the Potomac River, and both companies had planned to follow this course. The passage up the valley, however, was so narrow in places, particularly at the Point of Rocks, that the canal company, claiming a prior grant of the route, contested the claim of the railroad to the use of the river-

(1) Reizenstein. Economic History of the Baltimore and Ohio Railroad, p.26.

bank at this place. The matter was finally settled in 1832 by the Court of Appeals in favor of the Canal Company, and in the following year by a compromise on the part of both companies. (1) But by this time irreparable injury had been done the canal enterprise by the consequent delay in construction. The friends of the Chesapeake and Ohio canal had from the beginning placed great trust in the aid of the Federal Government, hoping indeed to shift the full responsibility upon the nation's shoulders. This trust had been rewarded by a congressional subscription of \$1,000 000 to the Company's stock in 1828, and, if rapid progress had been made upon the work, it is probable that more would have been forthcoming. But by 1832, when the canal was ready to resume work, the situation had greatly changed. The internal improvement party in Congress had lost its power, the President had become unfriendly and it appeared certain that no further aid could be obtained from this source. Moreover, during these critical years the railroad was gaining converts; enthusiasm for the canal had so waned that private assistance was not forthcoming. The state made another small subscription of \$125,000. - in 5% (2) 15-year bonds, to Chesapeake and Ohio stock but this was

(1) 4. Gill and Johnson, 52. Reizenstein, pp. 29-32.

(2) Md. Laws, 1833, ch. 239.

insufficient even to meet the accumulated indebtedness of the company, and further appeal was made.

Meanwhile the success of the Baltimore and Ohio Railroad had inspired other enterprises of the same kind, in two, and the most important, of which the state treasury became involved. These were the Baltimore and Washington and the Baltimore and Susquehanna Railroads, both of which, it is to be noted, paralleled the routes of previously planned canals. (1) The Baltimore and Washington Railroad started as an independent enterprise, but meeting with ill success, the Baltimore and Ohio Railroad Company undertook its construction as a branch of its main line. (2) The Legislature subscribed \$500,000 to the new stock issued therefor, with the provisions that this subscription should be considered a "separate and distinct stock"; that the interest of the state in the road should never be pledged as security for a mortgage; and that one-fifth of the gross passenger receipts from the Washington branch line should be annually paid to the state. The road was quickly completed, proved immediately successful, and the wise provision for the tax on passenger receipts became a lucrative source of revenue to the treasury. It was, indeed, the only one

(1) Md. Laws, 1827, ch. 170; 1828, ch. 139.

(2) Idem., 1830, ch. 158; 1831, ch. 330; 1832, ch. 175.

of the state's ventures in internal improvements, that turned out to its immediate financial advantage.

(2) The Baltimore and Susquehanna Railroad started favorably with a capital of \$450 000, of which the State of Maryland had subscribed \$100,000 but it immediately encountered a formidable obstacle in the refusal of the Pennsylvania Legislature to allow it to be carried through the state. Pennsylvania was busy with its own schemes of improvement and resented this attempt of Maryland to strike at the heart of its system and divert trade to Baltimore which legitimately, it was thought, belonged to Philadelphia. The requisite permission was finally granted in 1834, but the delay had so discouraged most of the stockholders that they ceased to pay their instalments when called for. The Maryland Legislature offered to guarantee a bond issue of \$300 000, but the company was unable to float a loan on the conditions required in the act, and applied for more material help.

Thus, up to the end of 1833 the state treasury had not been seriously embarrassed by its ventures into the

(1) Md. Laws, 1827, ch. 72. cf. Report of Committee on Internal Improvements. 1834, Feb. (Public Documents). (2) Letter of President of Baltimore and Susquehanna Railroad Company. 1829, Dec. 1. (Public Documents). (3) Memorial of Balto. and Susquehanna Railroad Co. 1834 Public Documents, No. 14). (4) Md. Laws, 1832, ch. 220. (5) Repts. Balto. and Susquehanna Rrd. Co. for 1833 and 1835 (Public Documents).

field of internal improvements. The appropriations made thereto had resulted in the authorization of a debt of \$1,725,000, a third of which had not yet been contracted. The form and provision of the several subscription acts were much alike. In each the state reserved the privilege of paying its promised subscription by a direct transfer of state stock to the company concerned, leaving to it all difficulties of marketing the stock. The rate of interest was, with one exception, 5%. The exception was in the case of the subscription of \$100 000 to the Baltimore and Susquehanna Railroad Company in 1831 when an easier money market permitted the issue of 4 1/2 % stock. The same rate was originally fixed for the loan authorized in 1834 for the Baltimore and Washington Branch Railroad, but the director, of the road being unable to dispose of it at the price required by the act, the Legislature later converted (1) it into a 5% stock. Occasionally the state had exceeded the regular duties of a stockholder by advancing the instalments on its holdings of stock before due and before (2) the other shareholders had paid. In such cases, however, special security had been exacted for the advance.

(1) Md. Laws, 1833, ch. 33.

(2) Md. Laws, 1831, ch. 224; 1833, ch. 33; 1833, ch. 105.

The Legislature of 1834 granted applications for aid from two improvement companies - the Chesapeake and Ohio Canal and the Baltimore and Susquehanna Railroad. The promoters of the Railroad, discouraged by the opposition of Pennsylvania, had carried on the work but slowly, and the road had been carried as yet but a third of its way to Yorkhaven. But there was little doubt that it could be completed in a short time at a comparatively small expense, and the Legislature agreed to loan the company a million dollars. The canal presented a more serious proposition. After having expended \$4 500 000 in constructing its first 106 miles the company was now bankrupt. It was evident that the canal would be of little value unless extended to Cumberland at least, and Cumberland was 86 miles away. Aid from the United States Government could no longer be relied upon, and private capital had lost its ardor for canal investments. The state treasury seemed the only resource. The Company's surveys and estimates demonstrated that the remaining section of the canal could be finished at an expenditure of \$2,000 000, or less, and, in this belief, the

(1) Md. Laws, 1834, ch. 241. (2) Memorial of Balto. and Susquehanna Railroad Co., Jan. 13, 1835. (Public Documents, 1834). (3) Memorial of Chesapeake and Ohio Canal Co. 1834 (Pub. Docs.). (4) Committee of House on Chesapeake and Ohio Canal. Feb. 13, 1835. (Pub. Docs. 1834).



Legislature authorized a loan to the Company of as much of
(1)
\$2 000 000 as might be necessary.

In making these loans measures, apparently ample, were taken to guard the state against loss. It was provided: (1) That each company should deposit a covenant with the state, pledging its whole property and resources for securing the payment of interest and principal of the loan made to it; (2) That each company should pay its whole net receipts to the treasurer annually, to accumulate until he should have a fund sufficient to pay the state loans when due; (3) That the Baltimore and Susquehanna Railroad Company should have called in all unpaid subscriptions of its private stock holders, and have deposited a bond with the treasurer in penalty of \$100 000 as a special security for the interest due the state before the completion of the road to Yorkhaven. To meet the loans when demanded the treasurer was authorized to issue and sell 6% stock redeemable at any time after 1860, provided he should receive not less than 15% premium. The full amounts of the loans were demanded by the two companies almost immediately. Fortu-

)1) The passage of this act was secured by providing that in certain cases the expected profits should go to the school fund. Governor's Message, 1835 p.30, says: "The great feature is that when refunded these loans are to be used for education." "By joining education and internal improvements all have been satisfied."

nately the money market was active and the treasurer was able to dispose of the State stock at an average premium of (1) 17%.

The loans, however, completely failed to attain the objects aimed at. The Baltimore and Susquehanna Company with its portion was able to carry its road only two-thirds of the way to Yorkhaven. The loan to the canal company was even less successful. (2) Of the \$2,000,000 loaned by the state, only \$121,000 was devoted to new construction, the residue being used to defray outstanding debts and to re- (3) pair the old works. In less than a year the Company again appeared before the Legislature as a suppliant, acknowledging that its former estimate had been so far short of the actual cost that it would require an additional \$3,000,000 (4) to complete the canal to Cumberland.

The Legislature was not in a position to quibble over the legality of things done. The alternative of further aid was the complete failure of the canal, which meant not only the loss of all the state investments therein, but also the permanent saddling upon the treasury of an annual

(1) Rept. Ways and Means Com. relative to State Funds, 1838. (Public Documents) (2) Report of Joint Committee on C. and O. Canal, 1835 (Pub. Docs.). (3) In the language of the President of the Company: "Residue expended in the repairs of old work, the payments of debts of company, and probably some small sum in the construction of locks to secure the Virginia trade." Rept. Minority of Joint Committee on C. and O. Canal (Pub. Docs., 1835). (4) Joint Com. Rept., Su-



interest charge of \$151,250 - a burden which the finances were in no condition to bear. But preliminary to another loan it was necessary to thresh over again the whole policy of internal improvements with a view of reconciling conflicting interests and establishing finally the attitude of the state government toward all such enterprises. As a result of this discussion a well-rounded plan of internal improvements was developed. ⁽¹⁾ The old project of a canal to the Ohio was definitely abandoned, and efforts were to be confined solely to completing it as far as Cumberland. Perfect confidence was felt that if the coal banks of the Alleghanies were once reached the canal would be immediately productive. The old fear still lingered that the cities of Virginia and of the District might profit unduly from this work, and to quiet this fear, and to win the favor of Baltimore, the moribund project of a lateral canal from the Potomac river to that city was revived. In addition Annapolis was to be cared for by a similar lateral connection to the Potomac. The Western trade, it was thought, could be taken care of by the extension of the Baltimore and Ohio Railroad. That road had been carried by now as far as Har-

pra.

(1) Report of Ways and Means Committee on The Finances and Internal Improvements, 1835. (Public Documents).

(2) Majority Report of Committee on Internal Improvements, 1835 (Public Documents).

per's Ferry, and was demonstrating its economic value. Financially it was less successful, and to carry out the plan the state would have to aid the railroad as well as the canal. Finally the Eastern Shore was to have a share in the state's bounty. The early plans to improve lowlands and navigable rivers of that section had never been carried out although repeated appropriations had been made. But now a bolder plan was developed - to construct a railroad through out the whole length of the Eastern Shore, which by numerous branch lines would bring every part of that section into communication with the rest of the country. (1)

An act embodying these several features and appropriating a total of \$8,000 000 was passed by the Legislature in extra session, June 4, 1836. (2) The money was to be raised by an issue of 6% 50-year bonds, which, however, were not to be sold at less than 20% premium. To dispose of what was then such a large issue commissioners were appointed to negotiate the sale abroad. The \$8,000,000 was subscribed to the stock of the several companies in the following proportion:

\$3,000 000 to the Chesapeake and Ohio Canal Company,

\$3,000 000 to the Baltimore and Ohio Railroad Company,

(1) cf. Md. Laws, 1835, ch. 338.

(2) Idem., 1835, ch. 395.

and as soon as formally organized with sufficient capitals to complete,

\$1,000 000 to the Eastern Shore Railroad Company,

500 000 to the Annapolis and Potomac Canal Company,

500 000 to the Maryland Canal Company, (i.e., the lateral canal from Baltimore City to the Potomac River).

A strong, but unsuccessful effort, was made to include in this act a provision for the establishment of a state bank, or failing this a real estate bank to which the state should lend its credit, on the lines laid down by
(1)
certain Southern and Western States. Both plans were fostered primarily by the planters of the lower Western Shore, who suffering from exhausted soil, beleived that paper money, or at least loans on farm lands at low interest, would restore their prosperity.

So important was the lateral canal from the Potomac River to Baltimore considered that the subscription to the Chesapeake and Ohio Canal and the Baltimore and Ohio Railroad were made contingent upon the organization of the Maryland Canal Company with sufficient capital to complete

(1) Public Documents, 1835. Report on Real Estate Bank, and the Reports of the Committee on Finances and Internal Improvements and of the Select Committee on Real Estate Bank ; also, Report of Ways and Means Committee, 1836.

the proposed work. Furthermore each of the several companies were required to guarantee on the state's subscription a preferred dividend of 6%. This latter condition was speedily fulfilled, although the canal company hesitated for a time to give its assent because of a clause in the act by which it surrendered certain claims it had made to the Potomac valley between Harper's Ferry and Cumberland. The first condition, that requiring the organization of the Maryland Canal Company, was also fulfilled in the course of the next few months, but only after some rather flagrant financial juggling, the details of which it is difficult to uncover. Surveys were made, a company organized, and a certificate showing a subscribed capital of \$1 000 000 presented to the treasurer and approved by the attorney-general. The company, however, was apparently nothing more than a "dummy" hatched up by the friends of the loan act for the sole purpose of fulfilling the conditions of the appropriations, and with no intention of ever building the canal. (1) The charge of fraud was repeatedly made, (2) to which the only reply was that the certificate had been duly ac-

(1) The list of subscribers, as given in the certificate shows that of the total of 16,105 shares subscribed 16000 had been taken by three men. Scharf says these men were of no financial standing in the city. History of Maryland, III., p. 208.

(2) Report of Ways and Means Committee on Subscriptions of State etc., ., 1836, Pub.Docs.

cepted by the state's officers.

The method adopted to float the loan likewise led to legal questioning. The spring of 1836, when the act was passed was a time of general prosperity. The money market was active and the Legislature had thought the requirement of a 20% premium on a 6% bond to be perfectly feasible. ⁽¹⁾ But by the time the Commissioners were ready to proceed to
(2)
Europe a great change had taken place. The crisis of 1837 was developing rapidly in the country, and abroad the deluge of American state bonds, combined with the irresponsible attitude of several states toward their obligations, had caused a rapid decline in American credit; to such an extent that the commissioners were unable to dispose of their securities at a price anywhere near that demanded by the terms of the act. Failing in this mission the commissioners adopted another method, carrying out the spirit if not the letter of the law. A contract was entered into directly with the two principal beneficiaries of the act, - the Baltimore and Ohio Railroad and the Chesapeake and Ohio Canal Companies - by which they agreed to accept state bonds to the full amount of their respective subscriptions, and to pay the treasurer in cash the premium of 20% required by

(1) Governor's Message, 1839.

(2) *Idem*. 1836.

the act. Such a contract was of doubtful benefit to the state. There was no reasonable hope that the companies concerned could dispose of the state bonds on better terms than the commissioners could have done, and every reason to believe that being hard pushed for funds the bonds would be sacrificed to the injury of the state credit. In such case the 20% premium to be paid the state would have to come out of the Companies' capital accounts, and, assuming the correctness of the estimates to complete the work, the loans would fall that far short of accomplishing their purposes.
(1)

After a prolonged discussion the Legislature refused to contest the legality of these contracts, or of the organization of the Maryland Canal Company. Admitting the irregularities attaching to these actions, it was none the less true that the treasurer had already made the subscriptions in question, and the Chesapeake and Ohio Canal Company on this authority had entered into numerous contracts. To annul the act meant embarrassment and further delay to the canal, when expedition appeared more than ever necessary.
(2)

Moreover if the contracts were carried out the state

(1) Ways and Means Committee. Report on Validity of Contracts made by the Commissioners, etc., 1835, (Pub. Docs.). Report of Committee on Internal Improvements, 1834.

(2) Md. Laws, 1837, Resolution 26, 1837; Resolution 68.

would at least receive as premium a sum aggregating \$1,200 000.

But the contracts were not carried out, nor did any of the expected results come to pass. Six per cent. currency bonds proved unsalable, and the Legislature a year later provided for their conversion into 5% 50-year sterling bonds, payable interest and principal in London; ⁽¹⁾ under the belief that 5% sterling was an equivalent interest to 6% current money, and much more acceptable to foreign investors. Moreover, the act which provided for this conversion radically altered the provisions of the original act. The state relinquished entirely its demand for a 20% premium, but stipulated that each company should guarantee to meet for a space of three years the interest on the \$3 000 000 loan for its benefit. Any advantage that the state might obtain from such a stipulation was considerably diminished, however, by the further provision that in the exchange \$3200 worth of the new sterling stock should be given for each \$3000 worth of the old currency stock, the state's interest as a shareholder in the respective companies not being correspondingly increased.

This change in the form of the state loan was of no

(1) Md. Laws, 1838, ch. 386.

immediate benefit. The foreign as well as the home market refused Maryland securities except at prices ruinous to the companies' interests and to the State's credit. The Baltimore and Ohio Railroad Company, instead of selling its portion, formed an arrangement with Baring, Brothers and Company of London, by which, upon security of State bonds, that firm was to advance such sums to the Railroad Company, as the progress of the road required and to dispose of the state bonds at the most favorable times. By this arrangement and by the resort to the issue of "stock-orders" - i.e., scrip issued upon the security of Baltimore City Stock - (1) the Railroad Company was able to tide over these critical years. The State bonds delivered to the Chesapeake and Ohio Canal Company were treated with less respect. Pressed with heavy debts, the canal company hypothecated the bonds with banks and brokers, who sold them for whatever they would bring, thus sacrificing the state's credit, and diminishing the resources of the company. This money

(1) In 1836 Baltimore City subscribed \$3 000 000 to the Baltimore and Ohio Railroad Company, but inability to find a market for municipal stock prevented the city from meeting its promised instalments. In this extremity the Railroad Company accepted in lieu of cash instalments city stock at par, deposited it with trustees, and issued printed orders in denominations from \$1 to \$100 fundable into this deposited stock at the will of the holder. Bolstered up by the agreement of the city to receive them in payment of municipal dues these orders passed freely into circulation, until overissue brought depreciation. In 1842 the city

was soon spent, and the company again acknowledged its estimate of the cost of completing the canal to have been wrong. In a spirit of resigned desperation (1) the Legislature of 1838 made a further subscription, of \$1 375 000 to (2) the stock of the Chesapeake and Ohio Canal Company. As before, the 5%, 50-year, State bonds authorized for this amount were issued directly to the company, and, as before, the bonds were sold at a discount and the money expended without final result.

In this lavish appropriation of the state's credit the Baltimore and Susquehanna Railroad Company was not forgotten. That Company with the aid of previous state grants and large loans from Baltimore City had completed its road to Yorkhaven, but it was then discovered that to make the road productive it would have to be extended still further, (3) - to the Susquehanna River itself. In 1838 Baltimore City agreed to loan the company \$250 000 more on condition that the state would duplicate this advance. The Legislature assented, and an issue of \$500 000 3% stock, redeemable ----- withdrew the former privilege of receiving them for city dues, and by funding and purchase these "stock orders" were soon retired. See Hollander, Financial History of Baltimore, p.181, for a more detailed account of these orders. (1) Rpt. of Ways and Means Com. 1838(Pub.Docs.) (2) Md. Laws, 1838, ch. 396. (3) Governor's Message Jan. 2, 1839. Rept. of Com. on Intn. Improvements on Balto. an Susquehanna Railroad, 1838 (Pub. Docs.).

after 1890, was authorized. Of this issue one-fifth was retained by the treasury as a sinking fund and the remainder sold to the highest bidders for the benefit of the Railroad Company. (1) This use of discount bonds by the state proved reasonably successful - 3% bonds netting \$63 on the \$100 - but notwithstanding this the method was not repeated. Still the road was not completed, and in the following session a further loan (2) of \$750 000 in 5% (1890) bonds was authorized. The bonds being difficult to market at the interest rate fixed, the rate was shortly changed to 6%. (3)

To assure the passage of this act by the Legislature Baltimore city agreed to surrender in favor of the state all liens it had upon the Railroad. Thus the state was left with a mortgage upon the whole property and a preferred claim upon all profits.

This completed the series of state loans for the benefit of the Baltimore and Ohio Railroad, the Chesapeake and Ohio Canal and the Baltimore and Susquehanna Railroad, the most important of the improvement undertakings in Maryland and the ones in which the public finances became most

(1) Md. Laws, 1837, ch. 302. (2) Md. Laws, 1838, 395.

(3) Md. Laws, 1839, ch. 20. And out of these bonds the Treasurer was to retain a sum sufficient to cover arrearages of interest up to Jan., 1840, due by the company to the state on former loans.

involved. But in fulfilment of promises to other sections of the state the Legislature made several lesser appropriations to other enterprises. The largest of these appropriations was that of a million dollars to the Tidewater canal Company. By the first internal improvement loan act, - 1825, ch. 180- a half-million dollar subscription was promised on certain conditions to any company that might be formed to construct a canal from Baltimore to Yorkhaven. The Susquehanna and Patapsco Canal Company was immediately (1) incorporated to carry out this project. As, however, the conditions required by the act were not fulfilled the state appropriation was not made and the whole matter languished. The construction of the Baltimore and Susquehanna Railroad over a parallel course quenched somewhat the former ardor (2) but did not discourage the project entirely. In 1836 the Susquehanna and Patapsco Canal Company was revived under the name of the Tidewater Canal Company, and this, in conjunction with a Pennsylvania company undertook the construction of a canal up the Susquehanna River to connect at Columbia with the important Pennsylvania canal system. The Baltimore connection however was abandoned and the southern

(1) Md. Laws, 1825, ch. 200.

(2) Idem., 1835, ch. 340.

terminus was fixed at Havre-de-Grace. By 1839 the work was well under way, and the Maryland Legislature granted a loan of \$1,000 000 in 5% (1865) sterling bonds to the two
(1) companies. The rights and property of the old Susquehanna Canal Company of Maryland were acquired by the new promoters. The other improvement appropriations were of little financial importance, and were all in fulfilment of the \$8 000 000 act of 1835, which in addition to the principal subscriptions to the Chesapeake and Ohio Canal and the Baltimore and Ohio Railroad had contemplated smaller, but still considerable, grants to other improvement enterprises - the Maryland Canal, the Eastern Shore Railroad and the Annapolis and Potomac Canal. At the time of the grants none of these three companies had at most more than a paper existence. The Maryland Canal Company never got beyond
(2) this stage. The Eastern Shore Railroad, originally hatched as a sectional sop, and for which there was no effective demand, met with but little greater success. Only a small fraction of the state subscription of one million dollars was ever called for; and finally in 1840 provision was made for winding up the affairs of the company, by the State's agreeing to buy out the interests of the other

(1) Md. Laws, 1838, ch. 416.

(2) Incorporated, Md. Laws, 1835, ch. 338.

(1)
stockholders and shoulder the whole loss. The project of
(2)
canal from Baltimore to the Potomac River was speedily
abandoned, and in 1837 there was substituted a plan for a
railroad from Annapolis to Elkridge to connect with the
(3)
Washington Branch of the Baltimore and Ohio. To this un-
dertaking the state subscribed \$300,000 and, as in the oth-
er subscriptions under the act of 1836, the Railroad Com-
pany was required to give the state a preferred claim of
6% upon profits. During the succeeding three years the
(4)
full amount of this subscription was paid by the state.

Summary of the Improvement Loans. In 1840 the long series
of improvement loans came to an enforced end. The Legisla-
ture, although weary of the task it had undertaken, would
have continued its borrowing, for the sake of the Chesa-
peake and Ohio Canal at least, if borrowing had been any
(5)
longer possible. But the credit of Maryland was hope-
lessly ruined. Small offerings of 6% state bonds were be-
ing sold as low as 35% discount, and an attempt to market
a large amount of such bonds would have forced the price

(1) Md. Laws, 1839, 323.

(2) Idem., 1828, ch. 189.

(3) Idem., 1836, ch. 298.

(4) Idem., 1838, Resolution, 26; 1839, ch. 12.

(5) Public Documents, E E., 1839.

(1)

indefinitely lower. Within ten years the state debt had been increased from almost nothing to more than \$15,000 000 of which all but \$240 000 had been incurred for the purpose of internal improvement. The following table itemizes the debt according to the objects for which incurred, and also shows the form and amount of the state's investment in each of the improvement companies aided:

(1) Public Documents, V., 1844.

Form of Investment.

Companies invested in	Amount of State Bonds issued.	Form of Investment.		
		Common Stock.	Bonds.	Preferred Stock.
Chesapeake and Ohio Canal -	\$7 194 667	625 000	2 000 000	4 375 000
Baltimore and Ohio Railroad -	3 697 000	500 000		3 000 000
Baltimore and Washing- ton Branch -	500 000	550 000	(a)	
Baltimore and Susque- hanna Railroad -	2 232 045	100 000	1 879 152	
Tidewater Canal	1 000 000		1 000 000	
Annapolis and Elkridge Railroad -	219 378			299 378
Eastern Shore Railroad	151 744			86 862
Chesapeake and Delaware Canal -		50 000		
Totals	14 994 834	1 825 000	4 879 152	7 761 240

(a) The conditions exacted by the state for this subscrip-
tion were so strict, that this was practically a preferred
stock.

In view of the financial ill-success, temporary at least, of the several state aided improvement companies, the character of the state's investments became a matter of importance. The early investments had been in the simple form of stock subscriptions with no other security than that of the ordinary shareholder. As, however, the policy of state aid began to assume greater proportions, with an attendant increase in the public debt, the Legislature became more sedulous in the guarding of the public investments. Thus in the \$3,000,000 loan act of 1834 the advances made to the Chesapeake and Ohio Canal and the Baltimore and Susquehanna Railroad Companies were in the form of subscriptions to the bonds of those corporations. As a bond-holder, however, the state was denied a voice in the management and in certain instances this lack more than counterbalanced the additional security thereby received. This was especially so in the case of the Chesapeake and Ohio Canal. This canal was rapidly becoming the peculiar concern of Maryland, and it was therefore desirable that the state should have a controlling influence in the management of an undertaking in which it had the dominant interest, both financial and economic. (1) In consequence of this desire the

(1) Rpt. of Ways and Means Com. on the Chesapeake and Ohio Canal. Mar. 14, 1839 (Pub.Docs.) 1838.

\$8 000 000 loan act of 1836 attempted to combine the management and security features, by providing that the various subscriptions then authorized should be regarded as "preferred stock", upon which the state should have a prior claim to a 6% dividend. This dividend was not to begin until three years after the date of subscription, three years being the time estimated as necessary for the completion of the several undertakings. In the meantime, however, the two largest beneficiaries - the Baltimore and Ohio Railroad and the Chesapeake and Ohio Canal Companies - were required to pledge their properties for the payment of six per cent. upon the amounts now subscribed to each. By these means it was expected that the state would be relieved of all necessity for providing for the interest on the \$8,000 000 loan. Thereafter all investments of the state in internal improvement companies took one of these forms - preferred stock or bond subscriptions.

The care thus displayed in guarding the investment of the public money had little immediate effect. At first, most of the companies did make an effort to pay interest on their bonds, and from this source and from occasional dividends, the state for some five years derived a considerable revenue. But, with the exception of the Baltimore and Ohio Railroad, none of the companies were actually

earning a sufficient net profit for this purpose, and therefore the payments to the state could not continue. Nevertheless, it was useless for the state, in the case of those companies in which it was a bondholder with the legal right of foreclosure - the Chesapeake and Ohio, the Baltimore and Susquehanna and the Tidewater Companies - to exercise that right when it had neither the money nor the credit with which to conduct such undertakings as canals and railroads.

THE SINKING FUND.

Minor Loans. The redemption of the minor bond issues was provided for with greater care than was the case with the much larger issues for internal improvement purposes. In the former instance indeed the chief canon of a sound sinking fund policy was consistently observed, i.e., the appropriation to the sinking fund of a specific, recurrent revenue. In this manner the tobacco warehouse loans were secured by the revenues from tobacco inspection, the monument loan by a proportion of the lottery receipts; the penitentiary loans by the future profits of that institu-

(1) Md. Laws, 1826, ch. 252; 1827 Resolution 57; 1834 Resolution 40; 1835, ch. 350.

(2) Md. Laws, 1829, ch. 165.

(1)
tion; the university loan by the pledge of an annual appropriation of \$500 from the treasury. With the exception of the loans for the Penitentiary, where profits were uncertain, these provisions were ample. The indemnity stock issued in 1836, as has been noted, was almost immediately retired by the use of the \$20 000 harbor appropriation to Baltimore City for the purpose.

The Improvement Loans. A method of treatment entirely different was accorded the improvement loans. In these cases no attempt was made to assign any periodic revenue to the service of a sinking fund. The Legislature was satisfied to provide, in one way or another, the nucleus of a sinking fund, and to trust to interest accumulation and to providence for its ultimate and sufficient enlargement. Even then no consistent policy was followed. The only principle of treatment at all common to the several loan acts was the almost invariable provision that premiums from the sale of state stock should be for the use of the sinking fund. Therefore an account of the sinking fund practice as regards the improvement loans is little more than a catalogue of unrelated items.

(1) Md. Laws, 1821, ch. 150; 1826, ch. 229; 1834, ch. 308; 1836, ch. 300.

The first improvement loan act, that of 1827, established a sinking funding by appropriating for that purpose the dividends from the state's holdings of turnpike stock and also all dividends from the investments now ordered to be made. By a supplementary act it was further directed that a sum equal to 10% of the loans to be negotiated should be taken from the unappropriated money in the treasury and set aside for the sinking fund. (1) All these provisions were speedily repealed and the money accrued thereunder used for current expenses. (2) The act making a state subscription to the Baltimore and Washington Branch assigned the revenue from the heavy passenger receipts levied upon the road to the purposes of a sinking fund. (3) Such an appropriation would have been more than sufficient, but this feature of the law does not appear to have been regarded. The \$8,000,000 loan act of 1836 directed that if the premium from the sale of the state stock was not sufficient to establish a sinking fund of \$500 000 the difference should be supplied from the bonus taxes upon the banks. (4) This act, however, underwent so many revisions and mutilations that the sinking fund feature was neglect-

(1) Md. Laws, 1827, chs. 104 and 105.

(2) Idem., 1828, ch. 192.

(3) Idem., 1832, ch. 175.

(4) Idem., 1835, 395

ed.

Another method was adopted in the \$3,000,000 loan of 1834. Here it was enacted that the companies benefitted by the loan should pay all their net profits into the state treasury until a sum should be accumulated sufficient to
(1)
amortize the loan now authorized. As, however, one of the companies concerned - the Chesapeake and Ohio Canal - never earned any profits, and the other - the Baltimore and Susquehanna Railroad - earned none for several years, no substantial benefit accrued to the state treasury. Still another and a more successful policy was followed on the occasion of the 3% loan to the Baltimore and Susquehanna Railroad Company in 1837. This being an intentional use of discount bonds, from which no premium could be expected, it was ordered that one-fifth of the bonds issued should be
(2)
retained by the treasurer as a Sinking fund.

In addition to these several efforts to provide sinking funds without directly burdening the treasury direct appropriations aggregating \$211,000 were made to a general sinking fund out of the money received from the re-
(3)
demption of the United 3% stock. The direction to the

(1) Md. Laws, 1834, ch. 241.

(2) Idem., 1837, 302.

(3) Idem., 1834, Resolution 51; 1834, ch. 299.

Treasurer to carry to the credit of the sinking fund any annual surplus over \$12,000 was of no effect, because there
(1)
were no surplusses.

The system of separate sinking funds was continued up to 1834, the treasurer maintaining and entering each as a separate account. In the year named, however, the several accounts were ordered to be consolidated into one general
(2)
fund. The treasurer was the sole custodian of the sinking fund. In 1826 the Board of Public Works was created as a managing body for all internal improvement matters, and among other duties was included the charge of the
(3)
"internal improvement sinking fund." No such fund was then in existence, nor did it make its appearance, until after the Board of Public Works had been abolished. Money once credited to the sinking fund was immediately invested by the treasurer without other limitation upon the character of the investment than that it should be in "some safe and productive stock." In practice such investments were confined almost entirely to state stock of various descriptions.

Notwithstanding the random manner in which the sink-

(1) Md. Laws, 1833, Resolution 38.

(2) Idem., 1833, Resolution 38.

(3) Idem., 1825, ch. 166.

ing fund was created, a considerable fund was nevertheless accumulated. In 1841 it amounted to \$1,159,438. Its weakness was that there was no provision for its increase other than its own interest accretion. The sinking fund was never violated,⁽¹⁾ although in the period of greatest treasury distress there was occasional talk of diverting its interest increment to other uses.⁽²⁾ The chief safeguard of the fund itself was that it was largely composed of state stock, which was practically unsaleable at the time, even if it had been desired to dispose of it.

INTEREST ON THE DEBT. GROWING TREASURY DISTRESS.

Although the series of loan acts began as early as 1827 it was not until 1835 that the resulting interest charge became a matter of importance, and not until 1837 that the presence of this item in the budget began to occasion alarm. This was due primarily to the fact that, as already explained, the improvement companies in which the state had invested did for a time make considerable returns to the state in the form of dividends on stock or interest on bonds; and during that time the receipts from this

(1) Md. Laws, 1838, ch. 390.

(2) Public Documents S. 1843.

source greatly reduced the burden of the interest charge. This is shown in the appended table, which gives by years, the total interest due on state debt, the receipts from improvement companies for dividends and interest, the receipts from tax on Washington Branch, and finally, the difference between the sum of the second and third items and the first item, which constitutes the net excess of annual interest on improvement loans ^{above} the receipts from improvement investments.

	Interest on on Improve- ment Loans*	Receipts from Improvement Cos. for Divi- dends and In- terest.	Tax on Wash- ington Branch Road.	Excess of Interest over Re- ceipts.
1833	27 654	6.108		21.546
1834	46 537	8.786		37.751
1835	91 784	27.343		64.441
1836	180 737	108.118	31 034	41.585
1837	256 387	182.925	33 248	40.214
1838	266 597	179.641	38 537	48.419
1839	278 445	143.460	37 369	97.616
1840	573 291	48.030	40 296	484.965

* The interest on other than improvement loans did not exceed \$15 000 per year, nearly all of which had been provided for by a special fund, e.g., the interest on the Tobacco warehouse loans was secured, as was the sinking fund of this loan, upon the receipts from tobacco inspection.

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The figures in the last column show the relative unimportance of the interest burden up to 1839. And such as it was it was not altogether unexpected. The prevalent optimism had greatly underestimated the time necessary for the construction of canals and railroads, but nevertheless it was realized that some time would be necessary before such works could become productive and that in the interval the state would have to bear at least a portion of the interest upon its loans. ⁽¹⁾ Excluding this one item the finances appeared to be in excellent condition. The revenue system as revised at the close of the war of 1812 provided amply for the ordinary expenditures, and it was calculated that, as this new demand upon the treasury was to be temporary only, it could be met by temporary expedients. The state held a considerable amount of marketable investments - United States and bank stock - which if necessary could be used for this purpose. Moreover, there was always the possibility of extraordinary revenue being received, such, for instance, as would come from the scheme urged by the Maryland Legislature for the distribution among the states of the receipts from the sales of the public lands of the

(1) Public Document O., 1839.

(1)

United States.

This policy of depending upon casual revenues worked successfully for a time. In 1832-3 the redemption of the United States 3% stock held by the state put the treasury in possession of \$335,104 - a sum sufficient to cover for (2) the next few years the deficiency due to interest payments. Between 1835 and 1837 this deficiency was met by the taxes upon the banks and by the novel plan of selling the privilege retained by the state of subscribing at par for a certain number of shares in almost all of the local banks. To some extent this privilege had been availed of by the state, it being indeed the usual method of investing a treasury surplus, but the number of "reserved" shares accumulated much faster than was needed by the state as a means of investment. This unsubscribed reservation was in excess of a million dollars. As the stock of many of the local banks, especially those of Baltimore City, were at a considerable premium the privilege to subscribe at par was a valuable one which the banks themselves were usually willing to purchase. (3) Altogether the sum of \$50 000 was now derived from this selling of "reserved" bank shares". Of

(1) Vide Md. Laws, 1832. Resolution 12; 1835, Resolution 94; 1841 (March) Resolution 2.

(2) Idem., 1833. Resolution 69; 1834, Resolution 39.

(3) Md. Laws, 1836, ch. 154. An attempt to raise money by this method of selling "reserved shares" had been made in 1818, but without success. Md. Laws, 1817, Resolution



(1)

similar character was the sale to the Merchants Bank of the state's reserved right to appoint a director in that institution. By these several expedients the treasury was so relieved that when, in 1837, the state received nearly a million dollars as its quota of the United States surplus distribution it was considered feasible to donate the larger portion of this sum to the public schools.

(2)

Up to 1838 there was no serious questioning as to the ultimate success of the various improvement undertakings in which the state had invested so heavily. Occasional doubts could not but obtrude, but these were too unpalatable to be long harbored. This attitude of mind is well illustrated by a paragraph from a report of the Ways and Means Committee of the House of Delegates in 1837: "In anticipation of the future productiveness of our great works of improvement it has been the policy of the state to rely on casual revenues to supply our annual deficiencies. As the day is almost at hand when these anticipations are to be realized or disappointed" we "deem it inexpedient to change that policy by a resort to a system of permanent taxation which might create an overflowing treasury."

54; 1818, Resolution 27; and was suggested as early as 1800 Proceedings of House of Delegates, 1800, pp. 36-37.

(1) Md. Laws, 1833, ch. 115.

(2) Idem., 1836, ch. 220.



Again, the same Committee says in 1839: "If it (direct taxation) can be postponed it is the duty of the Legislature to do so."⁽¹⁾ The policy thus expressed was steadily adhered to by the Legislature. Little or no consideration was given to proposals looking toward the permanent enlargement of the revenues. The tax on the Baltimore and Washington Branch of the Baltimore and Ohio Railroad was important but isolated. Of the other two taxes imposed between 1831 and 1841 - the bank bonus tax and the tax on foreign insurance companies - the first was not a permanent measure and the second of little importance as a revenue producer.

But this failure to provide against the possibility of an unsuccessful outcome of the state aid policy is not wholly attributable to a mere senseless optimism. It was due in great degree to popular absorption in political matters to the neglect of the public finances.⁽²⁾ The political quiet following upon the demise of the Federalist party in the early twenties had not been of long duration. Almost immediately there began an active agitation for constitutional reform - for a change in the state's constitution which permitted the smaller counties to dominate the larger

(1) Public Document C C. 1839.

(2) Governor's Message, 1844.

counties and Baltimore City. The party of reform grew in strength, and finally in 1837 an amendment to the constitution was adopted. (1) Under this the Delegates to the lower house were apportioned among counties according to a graduated scheme of population, which, while more equitable than the old system, limited the representation of the largest county to five members. The electoral college for the choosing of senators was abolished and each county, and Baltimore City, was assigned one senator. The executive council of five members was also abolished, and in its place there was substituted a secretary of state. These important changes, however, were secured only after a long and bitter struggle culminating in 1836 in a dispute that almost precipitated armed insurrection. The effect of this political controversy was to lessen interest in improvement legislation. The Legislature was not able to devote a commensurate portion of its time and attention to the important loans it was sanctioning and to the general problems of the treasury.

The critical years began in 1840. The interest charge jumped from \$291 388 to \$585.819 and at the same time the receipts for interest and dividends from the va-

(1) Md. Laws, 1836, ch. 197; Confirmed 1837, ch. 84.

rious improvement companies dropped off with equal suddenness. There were only two funds remaining which could be used to meet this demand - the bank stock and the large portion of the United States surplus deposited in the banks. The interest of this latter money had been pledged to the public schools, but no specific pledge had been given as to the form in which the principal sum should be maintained. The first attack upon the special deposits was the withdrawal of \$120 000 and the substitution in its place of a
(1)
5% state bond of equal value. This would insure an equivalent interest to the school fund, provided the state should continue to pay interest. Immediately after this, however, the whole residue of the deposits was used for the payment of interest on the public debt, and, as a compensation, it was ordered that the receipts from the tax on the Washington Branch should thereafter be paid to the school
(2)
fund. The treasurer was also ordered to sell the state's holdings of bank stock, but owing to the depressed condition of the market this was not done.
(3)
Finally, the interest falling due in 1841 was provided for by the authorization of a temporary loan of \$500 000 from the banks.
(4)
Of this

(1) Md. Laws, 1838, Resolution 77.

(2) Md. Laws, 1839, ch. 33.

(3) Idem., 1842, Resolution 12.

(4) Idem., 1841 (March) Resolution 3.

amount, however, barely \$400,000 could be obtained. Thus by 1841 all the available treasury funds had been exhausted, and it was no longer possible to borrow even on temporary loan. Every expedient had been resorted to short of taxation, and this or repudiation was the alternative now presented.

CHAPTER V. PERIOD OF SUSPENSION OF INTEREST PAYMENTS.

(1841-1848)

The treasurer was unable to meet the quarterly interest payment falling due on January 1, 1842. Then succeeded a period of six years in which the state continuously failed to meet promptly and fully the interest on its debt. Resumption was not effected until January 1, 1848. The Legislature waited until the eve of the treasury's exhaustion before providing any measures in relief. The session of 1840 discussed at some length a bill for the taxing of real property, but the members were unwilling to commit themselves. ⁽¹⁾ Immediately upon adjournment, however, an extra session was called for special deliberation upon the matter of a property tax. An act was finally passed, 1841, "for the general valuation and assessment of property in this state, and to provide a tax to pay the debts of the state." The rate of the tax was 20 cents per \$100 of property. The bill passed the House of Delegates by a vote of 53 to 22. ⁽²⁾ The opposition was not sectional, and much of the objection was to the details rather than to the principle of the bill. The property tax proved insufficient to the needs of the treasury. Other taxes were necessary, and during the next

 (1) Proc. House of Delegates, 1840, pp.298-398.

(2) Idem., 1841 (March session) pp. 43-44.

half dozen years the tax system of the state was entirely reconstructed.

NEW TAXES.

The General Property Tax.

(1)

The act of 1841 provided for the assessment of all real and personal property within the state, and then enumerated certain kinds of property which should be considered as coming within this provision. The most interesting feature of this enumeration was the specific inclusion therein of (1) Debts secured by judgment, decree, mortgage, bond, bill of exchange or promissory note from solvent debtors; (2) Public loans of all descriptions, except those created by the United States Government; (3) Shares of stock in banks or other stock companies whether incorporated by Maryland or by some other state.

Further description of the taxable forms of property can be best suggested by a statement of the forms that were exempt. These were: property belonging to United States, the State of Maryland or to any county or city within the state; the property of charitable and literary institutions, churches, county schools, cemetaries; produce of land in hands of producer; provisions for consumption of owner; plantation utensils; working tools of mechanics and hand manufacturers, and the produce thereof while in the possession of the producer; wearing apparel; fish unsold in pos-

(1) Maryland Laws, 1841 (March) ch. 23.

(2) This was changed by Act, 1846, ch. 175, so as to exempt only 40 acres of land and the personal property used directly

session of fishermen; household manufactures; bonds, mortgages and other securities belonging to any bank or other incorporated institution, the capital stock of which was made taxable by this act; goods belonging to non-residents in the hands of agents in this state; and, finally, the property of all persons who may be assessed for less than

(1)
\$200. No deduction was made for debts, and no provision made for the exemption of book accounts.

For convenience of assessment Baltimore City was divided into six districts, and the larger counties similarly subdivided, but the majority of the counties were treated as single districts. Three assessors were appointed by name in the act for each district, but vacancies were to be filled by the Levy Court or commissioners in the county, and by the mayor and council in the city of Baltimore. The assessors of each district, acting conjointly, were to ascertain, list and value all the taxable property within their jurisdiction, and to make a detailed return thereof according to forms and directions supplied by the state treasurer. To aid in the discovery of property and of its ownership the registers of the land offices and the clerks of the courts, respectively, were to furnish lists of land certificates ready for patent and of all recorded property

by such institutions.

(1) By act of 1841. (Dec.) ch. 116 reduced to \$50.

alienations. Furthermore, the assessors were given power to compel owners to disclose their property under oath.

All property was to be assessed at its full cash value. In the case of real property and of slaves this valuation was to be made only by the assessors, but in the case of other personal property, when the owner returned an account of his personalty, the owner's appraisal would be accepted. No attempt, however, was made to fix by law a uniform assessment value for slaves,⁽¹⁾ silver plate, etc. as had been the practice in the earlier assessment law. But a somewhat analogous system was introduced by a supplementary act of the next session, by which silver plate worth over \$50 and watches were subjected to a special and higher rate of taxation than that imposed upon other property: 2 1/2 % in the case of plate, and specific rates for watches ranging from \$1 to 12 1/2 cents according to the character thereof.⁽²⁾ With this exception no attempt was made towards equalization, either between sections or between individuals, a feature so prominent in the earlier assessment system. Corporation stock was valued by the assessors simply at what they considered its cash value to be.

Appeal from the assessors' valuation lay to the Levy Court or Commissioners of the County, who could increase

(1) Public Documents, 1841. Committee on Assessments of slaves. (2) Maryland Laws, 1841 (Dec.) ch. 297.

or abate the assessment and add or exclude property, and could do this even without an appeal. To exercise this authority in Baltimore a special board of three members, known as the Appeal Tax Court was created. The members of this court were local officers, appointed by the Mayor and Council of the city. Further appeal could be taken to the state Court of Appeals and provision was made for expediting such cases. The decision of the higher court upon this class of appeals, however, was to concern only questions of the law and not questions of fact, not, for instance, the amount of an assessment.

The present law did not contemplate periodic re-valuation. The present assessment, was to remain the basis for future levies, with such additions of unlisted property as the collectors of the counties should be able to discover.⁽¹⁾ Deductions for loss or destruction were to be made, on request, by the county commissioners, Levy Court, or Appeal Tax Court of Baltimore City, as the case might be.

The Taxing of Stock and Bonds.

The collection of the property tax in most of its phases developed so many difficulties, because of the existing social and political conditions, that its treatment is postponed to a later section. The methods adopted for the

(1) Maryland Laws, 184 (Dec.) ch. 116, sec. 6.

taxing of stock, however, obviated these difficulties, and required separate notice.

The modern system of taxing stock to the issuing corporation was developed in all its details in a series of laws passed between 1841 and 1848. The beginning of the system was made quite naturally with the portion of the stock of local corporations owned by non-residents, in which cases ~~of~~ assessment would be very difficult and collection almost impossible if the attempt was made to deal with the individual stockholder. The act of March, 1841⁽¹⁾ therefore, directed each corporation in the state to return to the local assessor a list of its non-resident stockholders, with the respective amounts of their holdings. The assessor was then to value such stock at its full value, and the tax thereon was to be collected directly from the corporation in question, unless paid previously by the stockholder. To insure correct returns the assessor was given free access to the stock books of a company, whenever he should make the demand. At the next session of the legislature⁽²⁾ the above provisions were extended to the stock held by residents as well as by non-residents.

Thus far, however, the tax was still assessed to the

(1) Md. Laws, 1841, (March) ch. 23.

(2) Idem., 1841, (December) ch. 281.

individual stockholder, and was paid by the corporation only when a dividend was declared, or, as provided a little later, when profits were earned. (1) The act of 1848 endeavored to correct former weaknesses, and render the system complete. (2) It was directed that the local tax officials should value the stock of each corporation within their district, after having given opportunity for the proper officer of the corporation to submit evidence of the true value of the stock; that the assessed value of the real and personal property of said corporation should then be deducted from the total stock valuation, and the residue be thereafter used as the basis upon which state and local taxes should be levied. The state tax was to be paid by the corporation to the Treasurer, whether or not dividends were declared or profits earned, and without regard to the place of the stockholders' residence. The local taxes, however, had to be collected, as formerly, from the stockholder; but the companies were required to furnish lists of such persons to aid in the collection of the local taxes, and were permitted to assume the payment thereof by agreement with the county or city officials.

(3)

The stock issues of Baltimore City, and at first

(1) Md. Laws, 1843, ch. 289. (2) Md. Laws, 1848, ch. 266.
(3) Md. Laws, 1841, ch. 281. See 4 1843, ch. 289; 1844, ch. 234.

(1)

even those of the state, were treated quite the same as the stock of private corporations; the register of the city and the state commissioner of loans, respectively, being required to withhold the amount of the tax from the semi-annual payments of interest. Such stock was presumably assessed at its par value. Later, however, special provision was made for the valuation of state stocks, those bearing 6% interest being assessed at par, those bearing 5%

(2)

sterling at 90 and so on; and the Commissioner of Loans, who disbursed the interest, was only permitted to draw on the treasurer for the amount of such interest less the amount of the tax.

Up to 1847 bonds or other evidences of debt issued by private corporations were assessed to, and the tax collected from, the holder thereof. But in that year the tax on interest-bearing bonds, as previously with the tax on stock, was ordered to be paid directly to the Treasurer, (3) And, as also previously provided for the issues of stock, the corporation was required to render a list of the holders of its bonded debt to the local authorities, in order to assist them in the collection of the local taxes.

(1) Md. Laws, 1841, (Dec.) ch. 281.

(2) Idem., 1844, ch. 172: applies to non-resident stockholders, and 1845, ch. 170 to resident holders.

(3) Maryland Laws, 1847, ch. 266, See 9.

Income Taxes.

A tax upon incomes other than those derived from the ownership of property naturally suggested itself as a necessary complement to a general property tax. The only Maryland precedent for such a tax was the shortlived and unsuccessful levy of an income tax during the Revolution. The law as now passed was comprehensive but not very burdensome. (1) It provided for a tax of 2, 1/2 % upon all salaries and emoluments, whether of private or public office, and upon all incomes arising from a profession or other employment. Exemption was made of the salaries of judges and of (2) clergymen, and of all incomes of less than \$500 annual value.

As far as possible the tax on income was to be collected at the source where the income had its rise. In the case of public salaries this could be easily done by the direction that the Treasurer should retain the amount of the tax out of each salary paid by him, and to give a receipt therefor which the regular collector would accept in settlement. Corporations, firms and individuals with salaried employes were similarly required to withhold the

(1) Md. Laws, 1841 (December) ch. 325.

(2) Reduced by Act 1843, ch. 307 to \$300.

amount of the tax and pay it directly to the state treasury. In those forms of income where this procedure was not possible, the sworn statement of a person as to the amount of his income was to be accepted by the assessor as final. The provision for assessment, when no personal statement was returned, as well as the provisions for levy, collection, and appeal were similar to those made in the act for the taxing of real and personal property, and led to similar difficulties in operation.

By later acts particular forms of income were subjected to special treatment, either because they had not been included in the general income law of 1842, or because it was desired to increase the rate of the tax with regard to them. Four classes of incomes were thus selected:

Ground Rents. Instead of the usual rate of $2\frac{1}{2}\%$ ground-rents were directed to be taxed at a rate equivalent to what would be the tax on the principal of which the rent
(1)
was the annuity. Thus the rate on a 6% ground rent would be $4\frac{1}{6}\%$. This was simply an application of the property tax to ground rents, but this method of rating was speedily displaced, and thereafter such rents were taxed as other

(1) Maryland Laws, 1841 (December) ch. 329.

income , but without the exemption privilege allowed other
(1)
incomes of less than \$300. Later the law taxing ground
rents was declared unconstitutional by the Court of Appeals
(2)
and the taxes paid thereunder were refunded.

Collateral Inheritance. By an act of 1845 the income of
property passing to collateral heirs was treated in a man-
ner similar to that provided for the more usual forms of
income by the act of 1842. All estates passing by inher-
itance to other than parents, wife, husband or lineal de-
scendants, by will or under the intestate laws, or by trans-
fer to take effect in possession after the death of the
grantor, were made subject to the 2 1/2 % tax. Estates of
less than \$500 were exempt. Every executor and administra-
tor was required to pay the above tax to the register of
wills of his county within thirteen months of the taking
out of letters. Property might be sold for the purpose, if
necessary, and the tax was a lien upon all real estate sub-
(3)
ject thereto.

Tax on Officers' Fees. The income tax bore unequally upon
the incomes of public officials. Those who were paid fixed
salaries suffered, while those whose remuneration was in
the form of fees escaped entirely. A simple percentage tax

(1) Md. Laws, 1842, ch. 294. Repealed, 1844, ch. 251.

(2) Idem., 1847, Resolution 27.

(3) Idem., 1844, ch. 237, 1845, ch. 302, and 1847, ch. 222.

upon the amount of fees received in an office was unworkable as had been demonstrated in the attempt made to levy
(1)
such a tax in 1824. A law was now passed which endeavored to avoid this difficulty by imposing specific taxes upon the more important of the fee offices. The officials selected for the tax were the clerks of the Court of Appeals; the clerks of the several county courts and Baltimore City court, the register in chancery, and the registers of wills in the various counties; and the amount of the tax was roughly apportioned to the supposed lucrativeness of each office. The lowest payment required was \$10 - from the clerk of the Court of Appeals of the Eastern Shore - and
(2)
the highest was \$1500 - from the clerks of the Baltimore County Court. The size of this latter payment indicates how productive many of these fee offices were.

Tax on the Commissions of Executors, etc. In every case of the granting of letters of administration, after June 1, 1845, the commission allowed by the Orphans Court to the administrator or executor was made subject to a tax of 10%
(3)
upon the commissions so allowed. The court was to determine the amount of the commission within twelve months of the granting of the letters, and the tax was to be then fixed and paid within sixty days of the return of the in-

(1) Md. Laws, 1844, ch. 302. (2) Idem., 1846, ch. 253.
(3) Md. Laws, 1844, ch. 184.

(1)
ventory. When a legacy was left to an administrator or executor by way of compensation and in lieu of his demanding a commission, such legacy was to be regarded as a commission and be taxed accordingly.

(2)
A precisely similar tax of 10 % was levied upon the commissions allowed to trustees and receivers. Every trustee and receiver was required to render an account of his trust estate within six months of the filing of his bond; thereupon the commission was to be determined and the tax paid within thirty days. The receipt given for this payment was to be accepted by the collector of the income tax as a credit for so much of the regular income tax bill rendered by him to such receiver or trustee.

License Taxes.

The field of the license tax was already so fully occupied that there was little room for a further extension of this principal. Little alteration was made in the form of the existing license laws, the only important change being the exaction of a special license tax of \$50 from those selling merchandize in Baltimore City who were not resident citizens of the state, nor established in business therein.

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- (1) Md. Laws, 1845, ch.391. (2) Idem., 1847, ch.230.
(3) Idem., 1844, ch. 187 and 1845, ch. 166.
(4) Idem., 1845, ch. 216. The charge was originally \$300, but this was reduced in the following year to \$50. (1846, ch.

Three new forms of licenses, however, were introduced, although none of them were of much fiscal importance.

Brokers . By the act of 1842 stock brokers were required to obtain from the clerk of the county court annual licenses costing \$1000, and exchange and bill brokers were charged at an even higher rate, \$3000 each. The result was that no applications were made and the rates had to be greatly modified. These were now fixed: for stockbrokers, \$75, exchange brokers \$100, bill brokers, \$50.

Foreign Insurance Companies. Agents of foreign insurance companies - i.e., those not incorporated by the state - were subjected to an annual license tax of \$100, and for each company represented the agent had to take out a separate license. The treasurer was to publish in the newspapers annually a list of licensed agents with the names of the companies they represented. This new enactment did not do away with the former tax on the premiums received by such agents, this latter tax being increased from \$2 to \$3 per \$100 of premiums so received.

249.) The following were exempt: sellers of agricultural and home manufactured products, and manufacturers of leather, iron and tobacco, 1847, ch. 231.

(1) Md. Laws, 1841 (Dec.) ch. 282. (2) Governor's Message, 1842. (3) Md. Laws, 1842, ch. 257. (4) Md. Laws 1845, ch. 167; 1846, ch. 357.

Public Exhibitions, etc. Theatricals, circuses, and other exhibitions of this kind, were customarily licensed by the local authorities in whose jurisdiction they claimed to be. The tax now imposed was additional to such local license. The charge varied with the character of the exhibition, and was higher for Baltimore City. Scientific lectures , (1) entertainments for charitable purposes, etc. were exempt.

Stamp Tax.

(2)

The stamp tax of 1845 was the most bitterly de-
(3)
nounced of all the taxes imposed during this period. But, as such a tax was exceedingly productive, easy to collect, and, as, moreover, its chief burden fell upon the commercial interests of Baltimore City and not upon the rural districts, it was continued in force for several years. The form of the law was simple. It required that specially stamped paper, prepared by the government, and for which a charge was made, should be used in drawing up any of the following instruments of writing: bonds, obligations or promissory notes above \$100 in value, not issued by a bank, and bills of exchange or other evidences of debt above \$100 by whomsoever issued. By a supplement of the following

(1) Md. Laws, 1841 (Dec. ch.194; 1845, ch. 374.

(2) Md. Laws, 1844, ch. 280. (3) Governor's Message, 1845.

year this requirement was extended to mortgages of over \$100 and deeds and bills of sale when the amount exceeded \$200.⁽¹⁾ The amount of the charge for the stamp varied from 10¢ to \$6 according to the expressed face value of the instrument. Another act of 1846, made similar provision for the payment of a stamp duty upon all lottery tickets sold within the state; the maximum charge for the stamp upon lottery tickets was 20 cents.⁽²⁾

Other Taxes

Officers' Commissions. Beginning in 1844 specific taxes were laid upon all commissions issued to elected or appointed officials, whose offices were derived from the state. All commissions were thereafter forwarded to the clerks of the counties, who delivered them to the appointees, and at the time of delivery collected the tax thereon.⁽³⁾ The amount of the tax varied from \$1 for minor officials to \$300 for the sheriff of Baltimore City.⁽⁴⁾

Policies of Insurance. All companies or individuals authorized to make insurance, fire, life, or marine, were required to pay \$1 for each policy written by them. Payment was to be made directly to the Treasurer of the state, and the \$1 tax could be commuted into a semi-annual payment of

(1) Md. Laws, 1845 ch. 193. (1846, ch. 61; 1847, ch. 262)

(2) Md. Laws, 1845, ch. 92. (3) Idem. 1843, ch. 284, (1844 ch. 260) (4) Idem. 1847, ch. 54.

\$500. Failure to accept the act on the part of any company or individual was to be penalized by requiring its policies thereafter to be printed upon stamped paper.⁽¹⁾

Protests. By an act of 1842 the fee allowed the notaries public for protesting notes, drafts, bills of exchange and checks, was doubled and the excess over the former fee was thereafter paid into the state treasury.⁽²⁾

DIFFICULTIES OF COLLECTION.

The act of 1841 entrusted the levy and collection of the property tax entirely to the local authorities - i.e., the Commissioners or Levy Courts of the counties and the mayor and council of Baltimore City. These bodies were directed to levy annually upon the assessible property within their jurisdictions the specified state tax, and to appoint the necessary officials for its collection. The only limitations were that such collectors should bond to the state for the prompt collecting of the tax, and that each member of the respective local bodies should be individually liable to the state for the performance of his required du-

(1) Md.Laws,1845,ch.366. (2) Md.Laws,1841,ch.28;1844,ch.196. (3) Collectors were named in the act for Prince George county, Anne Arundell co. and Howard District, but vacancies were to be filled by the Levy Ct. or Commissioners of county

ties. At an earlier period this policy of transacting state business through the local bodies presented no difficulty, the members of such bodies being appointed by the State Executive and responsible thereto. In 1827, however, the growing desire for greater local autonomy caused the substitution of an elected for an appointed governmental body in Baltimore County. This body was known as the Commissioners of the County, and was vested with all the powers formerly exercised by the Levy Court and the Commissioners of the Tax. By 1842 this method of local administration had been extended to fifteen counties, and in four others the old levy courts, although retained in name, were made elective. The result of this change was that the local authorities became more heedful of local opinion and less responsive to unpopular directions from the central government. During the period now being considered this was a matter of importance. The action of the Legislature in levying a direct tax, although assented to in theory by probably a majority of the people, was nowhere popular in practice, and in some sections was opposed most bitterly.

The assessment of property having proceeded more slowly than anticipated, the time for the payment of the

(1) Maryland Laws, 1826, ch. 27.

(1)
tax of 1841 had to be extended till March 1, 1843. Even
with this extension, however, the result of the first
year's levy, as indeed those of 1842 and 1843 also, was
very disappointing. In some counties the tax was not even
levied; in others the levy was made, but either no collec-
tors were appointed or those appointed refused to serve; (3)
in few was the collection of the tax enforced with any
spirit. In face of this emergency the Legislature was ir-
resolute. Stringent penalties were ordained against neg-
ligent officials, (2) but in the infrequent cases of actual
prosecution the local courts and juries hesitated to con-
demn. The Legislature itself showed the utmost leniency
in holding such officials to account. An effort was made
to insure the collection of the tax by enacting that the
state tax should be combined for purposes of collection
(2)
with the local taxes. The result was simply that in the
delinquent counties no taxes at all were levied. (4)

It is difficult to estimate just how widespread was
the anti-tax sentiment. Somerset, Worcester and Calvert
counties were the most flagrant offenders. From these no
returns whatever were made for some three years. Elsewhere
the opposition was more scattered, and usually contented

(1) Md. Laws, 1841, ch. 116.

(2) Idem. 1842, ch. 269.

(3) Niles' Register, May 4, 1844.

(4) Governor's Message, 1843.

itself with obstructive measures, such as intimidating the
(1)
collectors. But the failure of some counties to pay their
portions of the tax disheartened others, and made its en-
forcement in other counties seem unjust. The anti-tax ad-
vocates gained heart. Public meetings were held, where
resolutions were passed, in which it was declared that as
the arrears of interest were accumulating with such hope-
less rapidity, and as the tax was of great oppression to
the people, the effort to pay off the state debt by such a
(2)
method should be abandoned. Open repudiation was somewhat
disguised in the plan offered for distributing the state's
interests in internal improvement companies among the hold-
(3)
ers of the state bonds in settlement of their claims. In
some sections the matter was made a political issue and
(4)
anti-tax candidates were put forward. But, notwithstand-
ing these expressions of disapproval, it would appear that
the majority of the people were willing to make reasonable
sacrifice for maintaining the state's credit. The Legisla-
ture at no time gave official sanction to any other view.
The gravest error of all was that the taxes as first levied
were too small. Even if collected in full the total pro-
ceeds would be insufficient to meet the demands upon the

(1) Niles' Register, Jan. 18, 1845.

(2) Idem., July 17, 1843; Feb. 3, 1844.

(3) Idem., March 16, 1844.

(4) Idem., August 26, 1843.

treasury. Confidence could not be restored until the addition of new taxes rendered it at least possible for the budget to balance.

Not until the spring of 1844 did the legislature assume an aggressive policy. Then a law ⁽¹⁾ was passed providing, first, that in case the authorities of any county or of Baltimore city should neglect to levy the state tax within the specified time the governor should appoint a tax board of three members to perform this duty; secondly, that where a levy had been made but no collectors had been appointed, the governor should appoint collectors from the residents of the county or city in question; and, finally, that, if collectors were not appointed either by the local authorities or by the governor, the treasurer should appoint special agents with authority to receive money due on taxes. Payment to the agents was voluntary, but persons so doing would escape the interest charged upon those in arrears. The authority given the governor to appoint collectors in delinquent counties was without effect; he was unable to find persons willing to bear the odium. ⁽²⁾ This was remedied at the next session by providing that such col-

(1) Md. Laws, 1843, ch. 208.

(2) Governor's Message, 1844.

lectors could be chosen from persons resident outside the
(1)
counties in which they were to serve, but this provision,
also, was rendered ineffectual by the failure to give the
(4)
governor authority to compensate such collectors. There-
upon, the treasurer appointed agents, and these met with
(5)
considerable success. Swifter punishment was provided for
those who should offer violence to a collector. Any person
having a claim against the state had the amount of his tax-
(2)
es deducted therefrom; property subject to the tax was
made more immediately distrainable, and the attorney gen-
eral was authorized to buy in such property when this
(3)
should be necessary to protect the state's interest.

The actual content of the new legislation was less
important than the resolute disposition shown in its pas-
sage.
6)
This, together with Governor Pratt's election in the
fall of 1844, was decisive. Opposition died down and by
1846 the several laws were in effective operation.

The difficulty of collection was not confined to the
property tax; it extended to all those taxes whose collec-
tion depended upon the activity of county officials. The

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- (1) Md. Laws, 1844, ch. 236; 1845, ch. 203.
(2) Idem., 1845, ch. 145 (3) Idem., 1845, ch. 196.
(4) Governor's Message, 1845.
(5) Niles' Register, 1845, Feb. 8.
(6) Niles' Register, 1845, June 14. Governor's Message,
1845.

specific tax on watches and silver plate produced almost nothing. The income tax, except in those cases where the tax could be collected at the source, was similarly unproductive, (1) (2) and in 1848 was entirely repealed. It had been estimated that the new taxes imposed between 1841 and 1844, in supplement to the property tax, would produce \$600 000 during those three years. Instead of this the actual product was barely \$15,000. (3) The stamp tax, next to the property tax, became the largest revenue producer.

THE FINANCES DURING THE PERIOD OF SUSPENSION - (1841-1848)

In laying the property tax in 1841 the natural but serious mistake was made of overestimating the amount of assessible property within the state. No general assessment had been made for a half century; the various local assessments were notoriously untrustworthy. Thus an estimate of the product of a new assessment was little more than guesswork. The legislature "guessed" \$300,000,000 - \$100,000,000 each for real estate, improvements thereon, and personal property - and upon this basis the rate was

- (1) Treasurer's Report, 1846. Proceedings of House of Delegates, 1844, p. 191. (2) Md. Laws, 1847, ch. 252.
(3) Governor's Message, 1844.

fixed at one-fifth of 1 %. The product of this rate, \$600 000, would, if fully collected, just about meet the annual deficit due to the interest on the public debt. The actual returns of the assessors, however, listed the taxable property at only \$196,763,850, (1) and from this amount considerable abatements were made by the Levy Courts, the Commissioners of the counties, and the Appeal Tax Court of Baltimore City, under the authority given them to revise the assessors' returns. The assessment of Baltimore City as first made was so unsatisfactory that a new assessment was ordered for that city. This added \$23,000,000 to the taxable basis; but, notwithstanding this, no attempt was made to reassess property in the counties. The taxing of private debts was generally evaded by liquidation, (2) sufficiently long at least to have the debts stricken from the assessment books. The banks whose charter had been extended by the acts of 1821 and 1835 claimed to be exempt from the new law; that the payment of the 20% tax upon capital stock and the further payment of the "bonuses" were understood to have absolved them from other taxation. The Court of Appeals decided that such was the case with the banks rechar-

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- (1) Governor's Message, 1843. By December, 1843, the total assessment had been reduced to less than \$180 000 000.
(2) Treasurer's Report, 1843.

tered by the act of 1821, that the wording of that act gave them complete exemption from further taxation during the continuance of their charter, which would expire in 1846. But the court held that the language of the act of 1835 did not extend this privilege to the banks rechartered there-
(1)
under.

The rate of the property tax was increased in 1842 from one-fifth to one-fourth of one per cent., but, because of the difficulty of collecting even such a moderate rate as this, no further increase was attempted. The easier course was followed of imposing other kinds of taxes - the income tax, the stamp tax, etc., as already described. Collection of the taxes was somewhat accelerated after 1843 by the system, not altogether creditable to the state's honor, of allowing the coupons upon the state bonds and certificates of interest to be received in payment of
(2)
the property and income taxes. At first this privilege was restricted to the use of such coupons and certificates only as were payable in the year in which they were offered; but later the privilege was made general. As these coupons and certificates were selling at a discount in the

(1) Governor's Message, 1848.

(2) Md. Laws, 1842, ch. 189.

market, the permission to use them in payment of taxes was availed of quite generally. Out of the \$523,000 received in 1846 from the property and income taxes all but \$50,000 was in the forms of coupons. The coupons of interest upon the state bonds held by the treasurer to the credit of the sinking fund were treated in the same manner. (1) They were sold by the treasurer for what they would bring in the open market and the proceeds invested for the benefit of that fund.

Numerous plans were devised for the relief of the state's financial embarrassment. It was urged by one party that the National Government should assume the debts of the individual states. (2) A joint resolution of the houses demanded that the United States should fulfil the promise of the Surplus Revenue Distribution Act of 1937, which had been repealed before the fourth instalment had been deposited with the states. The diversion of the school fund and of the sinking fund to the purpose of interest payment was urged but was never acted upon. More successful were the efforts made to reduce the ordinary expenses of the state. The separate staff of officials previously allowed the

(1) Md. Laws, 1843, Resolution 20.

(2) Md. Laws, 1844. Resolution 17. Public Document K.1843. Governor's Messages, 1840, 1842 and 1843.

Eastern Shore was almost entirely abolished,- including the Treasurer of the Eastern Shore,- and the performance of their duties transferred to the corresponding Western Shore officials. Other minor offices were abolished, and the salaries of some important ones reduced,- the governor's (1) to \$2000, the secretary's of state to \$1000 and the chancellor's to \$3000. (2) Most important of all the retrenchment measures was the substitution of biennial for annual sessions of the legislature. (3)

In 1843 an act was passed authorizing the sale of the more important of the state's investments in internal improvement companies, and directing the treasurer to advertise in foreign and domestic papers for proposals. (4) The minimum terms which he was authorized to accept for the several investments were as follows:

The Chesapeake and Ohio Canal,	\$5,000,000
The Baltimore and Ohio Railroad	4,200,000
The Susquehanna and Tidewater Canal -	1,000,000
The Baltimore and Susquehanna Rail- road -	1,500,000

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- (1) Md. Laws, 1845, ch. 23. (2) Md. Laws, 1846, Res. 19.
(3) Idem., 1845, ch. 269, Confirmed, 1846, ch. 306.
(4) Md. Laws, 1842, ch. 301.

Payment was to be made in state stock bearing not less than 5% interest. Advertisement was duly made but without re-

(1)

sult. The only offer received was for the state's interest in the Tidewater Canal Company, and even then no sale

(2)

was effected.

Although it was no longer possible for the state to assist the several railroads and canals in which it was interested, their success was still regarded as the ultimate means of saving the state's credit. For a time, however, all of those undertakings languished. The Baltimore and Ohio Railroad was of least burden to the state. The \$3,000,000 worth of state bonds loaned that road under the acts of 1836 and 1839 were still in the hands of the company, and were not disposed of until 1850-51. In the meantime the interest thereon did not have to be met; and the occasional dividends declared by the company together with the tax on the Washington Branch compensated the treasury for the interest on the Baltimore and Ohio stock held by the state. In 1842 the road reached Cumberland, but it was not until six years later that active work upon the western extension was begun.

{1}--Md.-Laws;--(1842;)--ch.-301.

(1) Governor's Message, 1841.

(2) Treasurer's Report, 1843.

By the middle of 1846 the receipts from the new taxes had so increased that the revenues of the treasury exceeded all the necessary expenditures for that year, with the exception of the sum due for interest arrears. The gradual improvement in the financial condition of the state (1) from 1841 to 1848 is shown in the following table:

	Total Receipts.	Receipts. From Property Tax.*	Paid on account of inter- est.	Arrears of inter- est at close of year.
1842	542 910	254 353	49 506	859 656
1843	680 429	367 233	273 376	1,171 873
1844	743 480	376 333	395 060	1 450 962
1845	966 589	507 781	710 785	1 376 891
1846	917 888	523 049	732 290	1 300 023
1847	1 374 904	769 821	926 667	969 000
1848	1,000 572	548 019	751 166	854 003

* This also includes the receipts from the income tax and the tax on officers' fees, the three not being separated in the treasurer's reports.

(1) Scharf, History of Maryland, vol. III., pp. 215-216, given a similar table.

The Chesapeake and Ohio Canal Company made no progress at all between 1840 and 1844. At the March session, 1841, ⁽¹⁾ the Legislature had authorized another loan of \$2,000,000 to complete the Canal to Cumberland, but upon ⁽²⁾ such conditions that the company was unable to comply. Even if the conditions had been fulfilled it would have been impossible to have negotiated a sale of state bonds. In 1845 the final step was taken. The Legislature agreed to postpone the state's liens upon the canal in favor of ⁽³⁾ a loan by the company itself and by this means the canal was completed to Cumberland in 1850.

The Baltimore and Susquehanna Railroad and the Tidewater Canal, bidding as they did for the trade of the same ⁽⁴⁾ region, developed an intense rivalry, much as the Baltimore and Ohio Railroad and the Chesapeake and Ohio canals had previously done. Largely because of this neither company earned sufficient profits to enable it to meet with regularity the interest upon the loans from the state. Their interest arrears became formidable, and provision was made by the legislature for funding these arrears into new bonds.

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- (1) Md. Laws, 1841 (March) ch. 30. Repealed 1844, ch. 299.
(2) Treasurer's Report, 1841.
(3) Md. Laws, 1844, ch. 281.
(4) Governor's Message, 1846.

Full resumption of interest payment could probably have been effected as early as 1846 but the legislature waited until the success of resumption was assured beyond all risk of a second suspension before authorizing this step. In the spring of 1847 the necessary act was finally passed. (1) The Commissioner of loans was directed to receive all outstanding coupons and certificates of debt and issue therefor an equivalent amount of new state bonds; and the Treasurer was ordered to resume the payment of interest upon all state bonds on January 1, 1848. In case of insufficient funds, however, the interest on the original debt was to be first paid; but in anticipation of current revenue the treasurer was authorized to borrow upon the security of the state's holdings of bank stock. Coupons and certificates of interest were not to be received in payment of taxes after October 1, 1847. This provision had important results. Tax payers hastened to avail themselves of the limited permission to pay in this still depreciated medium. As a consequence the receipts of coupons and certificates were so large that the arrears of interest were reduced to 910 000, (2) and the resumption of interest payment rendered that much the easier. Conforming

(1) Md. Laws, 1846, ch. 238. (March 8, 1847).

(2) Report of Ways and Means Committee, 1847 (Public Document U.)

to the directions of the act the outstanding coupons up to January 1, 1848, were duly funded and upon that date the treasurer resumed payment of interest upon the full amount of the state's debt.

TABLES.

Note. The absence of a complete accessible file of the earlier documents, together with the complicated system of accounting then used, render these tables somewhat incomplete. Thus, the receipts into the Eastern Shore treasury are not classified, but are simply lumped under the "Miscellaneous Receipts". In actual amount such receipts were not important. Furthermore, it has been necessary to exclude the receipts from the tax on banking capital, per act of 1814, the product of which was transferred to the Free School Fund directly and does not appear in the regular statements of the Treasurer. In the same way the expenditures for the Free School Fund do not appear in the Table.

The English pound, used in the public accounts up to 1813, is equivalent to $2 \frac{2}{3}$ dollars. Prior to 1816 the fiscal year began November 1st.; thereafter December 1st.

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Table III.

FUNDED DEBT AND SINKING FUND.

-:-

Year	Funded Debt	Sinking Fund
1822	30,000.00	
1823	57,947.30	
1824	57,947.30	5,953.80
1825	57,947.30	7,810.80
1826	57,947.30	9,731.80
1827	125,947.30	12,123.93
1828	180,947.30	17,723.43
1829	?	21,594.43
1830	601,447.30	25,839.43
1831	695,497.08	30,001.43
1832	884,967.08	34,218.18
1833	1,109,620.76	51,456.13
1834	1,839,620.76	55,103.63
1835	2,984,947.30	452,769.61
1836	4,747,747.03	726,451.28
1837	5,011,980.73	810,306.63
1838	7,995,334.39	963,380.15
1839	14,334,148.90	1,013,372.66
1840	15,109,026.22	1,076,533.88
1841	15,213,184.67	1,159,438.80
1842	15,211,393.94	1,175,625.00
1843	15,204,784.98	1,186,818.27
1844	?	1,276,306.79
1845	15,186,784.98	1,411,911.54
1846	15,211,784.98	1,515,227.01
1847	15,434,706.98	1,642,934.01
1848	16,143,077.43	1,786,512.14
1849	15,909,981.18	1,892,537.61

VITA

Mr. Hugh S. Hanna is a native of Baltimore, Maryland, and obtained his early education in the ~~public~~ ~~the~~ schools of that city. He matriculated at the Johns Hopkins University in 1896 and received his Bachelor of Arts degree in 1899. He continued at the Johns Hopkins University as a graduate student in the Department of Political Economy thereafter, and pursued subordinate studies in History and Political Science. In consequence of ill health, necessitating absence and cessation of work at intervals, an unusual ^{period} ~~interval~~ has elapsed between his entrance in the University and his appearance as a candidate for the final requirements for the Doctor of Philosophy degree.







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DATE

NAME AND ADDRESS

22 Oct.

Edward Towle, Asst. Prof. Hist., US Naval Acad
Annapolis, Md.

